

VISVA-BHARATI

SIKSHA-BHAVANA

STUDY-ROOM.

Not to be Removed.)

OUTLINES OF CIVICS



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PREFACE

This book on Civics in two volumes is the outcome of my experience as a teacher of the subject for several years and is specially adapted to suit the requirements of the Intermediate students.

It marks a departure from the existing publications on the subject in more than one way. It gives a rational analysis of the subject in a very precise manner so that the student may learn it as a science and grasp the main issues without being overwhelmed with minute details. It will also enable the student to tackle the University questions easily without any risk of beating about the bush. Another important feature of the book is to be found in the lists of possible question suggestions at the end of each chapter in addition to the questions already set in the University Examinations.

My esteemed friend Dr. Pramatharanjan Datta, M.A., Ph.D. (Econ) (Lond.) Lecturer of Commerce, Vydyasagar College, has put me under a deep debt of obligation by going through the manuscript and by making many valuable suggestions. To Mr. Raghunath Chatterji, M.A. I am indebted for reading the proofs.

Author

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Dr. Beni Prosad narrows the scope of Civics to the "analysis and improvement of social life with special reference to the neighbourhood and the duties of man." As a matter of fact the scope of Civics is very comprehensive—it includes a positive science, a normative science and an art. The citizen is the centre of a large number of concentric circles that are everwidening in their magnitude. A modern citizen is the product of history and a creature of society. He has to be studied from more than one standpoint. Moreover he is to be studied not only as a member of a particular locality but of a nation state, nay, of the human society at large •that is at once international and cosmopolitan.

The aim of Civics is not only to give knowledge of the social institutions and their growth but also to inspire active devotion to the community. As Professor Gedde points out "Civics is the application of social survey to social service."

Etymologically there is no distinction between the terms Civics and Politics. The Greek word for city was polis. To the Greeks the city and the state were the same. So Politics which was derived from "polis" was the science which dealt with the state. Again the Romans who developed the same kind of City States as the Greeks, used the term "Civitas" for city and so Civics which was derived from Civitas came to be known as the science of the State.

University Questions

What is meant by Civics and what does it deal with ? (C. U. 1927).

2. Define the scope of Civics. (C. U. 1930).

Suggested Questions

1. What is the aim of Civics ?
 2. How is Civics related to Sociology, Politics & Economics ?
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Chapter II

The Society and the Individual

Civics is a social science. It studies not the isolated individual but man's conduct in relation to society. Man is by nature a social animal. Both by nature and by necessity a person seeks the company of others and becomes tied to his fellows in the bond of social relation. This society is helpful in developing the character of the individual and enables him to realise the best in himself.

Modern society consists of a multitude of social groups. Each of these groups is composed of individuals who are associated together because they have common purposes or similar interests to uphold. Such interest may be cultural, economic, political or ethical. An individual may belong to more associations than one and may have more interests than one in life. The State is the most important among the associations within the society.

The relation between the society and the individual is a very intimate one. No individual can exist without society and no society without individuals. Society is so natural for man that it has been well-remarked by a great thinker that an individual who does not belong to the society is either a god or a beast. On the other hand the

society is made up of individuals who contribute to its excellence. Society is not simply the sum total of the individuals who compose it. As a matter of fact, it has a life and a will of its own. The aim of society is not the promotion of individual welfare but the furtherance of the general well-being. By promoting the greatest good of the greatest number the society indirectly helps the individual to develop all that is best in him. No individual can develop his personality in an adequate degree so long as his neighbours are deprived of the opportunity of self-development. It has been happily said that human progress is a complex process.

True progress is the outcome of the harmonious development of the interests of the society as a whole. All the various associations within the society must all move forward in harmony and co-operation so that all the aspects of social life might be developed and through it the development of the society may be possible.

The idea of the progress again involves the idea of change. As circumstances change, as new things develop, old methods must be adapted and modified to satisfy the changing needs of society.

A study of the relation of the individual to the state from the ancient times to the present reveals an important thing. The ancients exalted the society while the modern thinkers exalt the individual.

According to the ancients the individual exists for society while according to the modern view the society exists for the individual.

Suggested Question

1. Fully discuss the relation of the individual to the society.
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Chapter III

The State

The State is the centre around which the political science clusters. Of all the associations within the society, the state is the most important. The state is a fellowship of men having for its aim the promotion of general welfare and good life for its members. This comprehensive aspect gives to this association a special prominence over others. All other associations are subordinate to the state. Its special nature is to be found in this supremacy which it enjoys over others. The essence of the state lies in its power of coercion. Membership of the state is compulsory and allegiance to the state is exclusive. Woodrow Wilson defines the state as "a people organised for law within a definite territory". Professor Garner defines the state more elaborately as follows :—

"The state is a community of persons, more or less numerous, permanently occupying a definite portion of territory, independent of external control and possessing an organised government to which the great body of inhabitants renders habitual obedience".

The above definition when analysed clearly brings out the four elements of which the state is composed.

These essential characteristics or marks of the state are :—

1. Population—that population should be regarded as the first essential element of the state is obvious. Without a number of persons politically organised we cannot have a state organisation. No doubt it is true that no definite number can be laid down yet the state cannot spring up in the desert where there is no habitation. According to the ancients, like Aristotle and other writers there should be a limit to the population of the state. According to them the population must be large enough to be self-sufficient and small enough to be well-managed and well-governed. In modern times we find that no definite rule is adhered to in practice with regard to the size of population. The state of Albania has a population of about 8 lakhs while that of China has more than 45 crores.

2. Territory—the state must have a location. A nomadic tribe cannot form a state. A particular portion of the earth's surface over which extends the political jurisdiction of the state is highly essential to state organisation. The largeness of the territory however is no index to the power and prestige of the state. The small state of Great Britain or Japan is far more strong than that of India or China. In the days of the Greeks and the Romans there were city-states where direct democracy prevailed. In modern times we have instead the big national states where

representative democracy is the rule of the day. But all states in modern times are not equally big. We have on the one hand the state of Monaco with the area of a few square miles and the state of Russia on the other extending over an area of more than 8 million square miles.

3. Government—a population and a territory although essential cannot by themselves create the state, which requires above all a political organisation through which the will of the state is to be formulated, expressed and realised. Such mechanism is called the Government. The Government is an essential mark of the state but it is no more the state itself than the brain of an animal is the animal itself or a board of directors of a corporation is itself the corporation. C. A. Beard in 'American Government and Politics' describes the wide-embracing nature of the activities of a modern Government in the following words :—"Our births are registered in its official records ? It provides schools for our education. We cannot be married without its license ; or enter any of the liberal professions without conforming to its standard and securing its sanction. At any time we may be called upon to surrender for its uses, a large share of our property in addition to ordinary taxes ; to fight for it and if need be die for it. Wherever we live and work we enjoy its benefit and protection and are subject to its restraints. There is no field of industry, commerce or labour which it does not enter. It is the symbol of national unity, the pledge of

national continuity. Our peace, security, comfort, health and well-being, in an ever-increasing measure, depend upon the wisdom of its policies and the efficiency of its administration. Whenever we inquire into the nature and duties of the good life, we confront our responsibilities as citizens. Finally when the race is run, a permit for our burial must be obtained from the Government."

4. Sovereignty—the last but not the least important of the component elements of the state is Sovereignty by which is meant the surpreme power in the State. The power to frame and enforce rules of social conduct is the 'very essence of the state. The supreme authority by virtue of which the state enforces its commands on the citizens, is termed sovereignty. The modern state is a sovereign state. Non-Sovereign state is a contradiction in terms. This conception of sovereignty has a negative as well as a positive implication. In the first place it implies that the sovereign is subject to no other higher will and in the second place that it is dominant over any other power or institution within the ambit of the state. The sovereignty of the state again is both external as well as internal. Externally it means that the state is independent of foreign powers and can act quite freely in international sphere. Internally it means that within its territorial limits it is all-powerful.

A distinction is often made between legal and political sovereignty. The legal sovereign is that

person or body of persons in whom is vested the law-making power while the political sovereign is that indeterminate body whose voice ultimately prevails in political matters. In Great Britain for example the King in Parliament is the Legal sovereign while the Electorate is the Political sovereign. The criterion of statehood lies ultimately in its sovereignty. If this last test is not satisfied it cannot be regarded as a full-fledged state. Thus India is not a state because it is not independent. The self-governing dominions like Canada, Australia, South Africa etc. are not strictly speaking states in so far as they are theoretically subordinate to the British Parliament although the Statute of Westminster has rendered them independent for all practical purposes. Cases of Japan in the East and France, Germany, Italy, Great Britain in the West may be cited as some of the illustrations of a state in the fullest sense of the term.

State & Association

It is common to distinguish state as an association from other human associations like Church, Trade Union, Club etc. for the two differ in important particulars :—

1. The membership of the state is compulsory while that of other human associations simply voluntary.
2. One person may be the member of one state at a time but he can be simultaneously a member of any number of other associations,

3. The state has the power to enforce its orders upon its members which other associations utterly lack.

4. The state as an association stands for the furtherance of the general welfare of its people whereas other associations have each a particular and limited interest to serve.

5. The jurisdiction of the state activity is limited within the boundary lines of the state but that of other associations often transcend national frontiers nay, may be co-extensive with the world at large.

State & Government

Similarly we may discover the points of distinction between state on the one hand and the government on the other.

1. The State is the whole of which the Government is a part.

2. The State includes the whole population while the Government is composed of only a handful—the chosen few.

3. The State is permanent but the Government is changing.

4. The State is something abstract while the Government is something concrete.

University Questions

1. "A state is a people organised for law within a definite territory". Explain (C. U. 1927).

2. What are the essential characteristics of the State? Point out the distinctions between State and Government. (C. U. 1929).
3. Define State and Government (C. U. 1931).
4. Distinguish between State and Government
(C. U. 1934).
5. Define and in general terms explain the purposes of the State. (C. U. 1933).

Suggested Questions

1. Define Society and distinguish it from State and Association.
 2. Discuss the points of distinction between State and other human associations.
 3. Explain the nature of State Sovereignty.
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Chapter IV

Theories of the Origin of the State

The origin and development of the modern state is enveloped in mystery. Various theories have been advanced by different writers to give adequate explanation of the course of the development of the state but no one of them is completely satisfactory.

(A) One of the oldest theories of state origin is the celebrated dogma of Divine Origin. It is a purely religious explanation of this political phenomenon. This theory attributes the state to the intention and omnipotence on the part of the Almighty Creator. It was believed in ancient times that state was created by God and the kings ruled by divine right.

The separation of religion and politics in recent times had taken away much of the force of this explanation. But it was the French Revolution which dealt a death blow to the theory and since that time it has been altogether discarded.

(B) Another way of explaining the state origin is to suggest that it was force that compelled the savage people to obey the stronger personality who became the natural leader or king. It is force that

accounts for the origin of the state and again it is force which upholds the authority of the state.

We cannot deny that the founders of heroic monarchy had to rely solely upon brute force in laying the foundation of the state but it will be a mistake to suggest that it is might that accounts for the origin and basis of modern state. As an authoritative writer has said "It is will and not force that is the basis of the state." The state is based on the consent and co-operation of the governed and although force of some sort is a necessity, it is not true that might or brute force brought about the state as we find it to-day.

(C) Another school has provided another explanation popularly known as the Social Contract theory. According to this theory, before the state originated people lived in a state of nature where there was no law and no authority. As might was right in such a state, the hand of the strong was always raised against the weak. To remedy this, the people selected one man as their king and entered into a contract with him to abide by his decision in everything. They transferred all of their rights to that person whom they had elected king and enjoined him to rule them for their common good.

This theory suggesting that state is the result of a contract entered into by two parties—the king on the one hand and his subjects on the other is something which history does not substantiate nor does

logic support. It is absurd and unnatural. In the pre-civil state, men could not be expected to be so politically conscious as to be capable of entering into such a contract.

(D) Then we have the Patriarchal and the Matriarchal theories that suggest that the state is nothing but the enlargement of the family. Family is the primary unit. Collection of families becomes a village and a collection of several villages a state.

To this explanation of state origin, it may be said that family although a very potential factor in the development of political life was not the basic organisation everywhere and it is an open question whether such family was patriarchal or matriarchal in nature.

The above theories are all more or less defective and fail to explain satisfactorily the origin of the state. In criticising the above theories Professor Garner well puts the whole thing as follows :-- "The state is neither the handiwork of God, (as the theory of Divine Origin would have us believe), nor the result of superior physical force (as the Force theory suggests), nor the creation of convention or contract (as the Social Contract theory declares), nor a mere expansion of the family (as the Patriarchal theory would like to explain).

(E) The true theory of the origin of the state is known as the Historical or Evolutionary theory.

According to this theory the state is the result of a gradual process of historical evolution. Out of a grossly imperfect beginning through crude but improving forms of manifestation in successive stages, the state has grown and developed till it has reached its present, finished form of political contrivance. It is very difficult, if not impossible, to state clearly the way in which it has developed or to demarcate clearly the different successive stages in that development. All that we can say is that it began very early, how long none can tell, and travelled slowly but steadily towards its goal. The teachings of family life, the faith and obedience to authority inculcated by religious preaching and lastly the rational considerations of men, have all contributed to the growth of the state and may be said to be severally and jointly responsible for the origin of the state. This theory does not nullify altogether the foregoing theories condemned as partial and insufficient but admits the elements of truth in those theories and combines them to constitute a coherent explanation of the origin and development of political life in the state.

Suggested Questions

1. State and explain some of the popular explanations of the origin of the state.
2. State and explain the correct theory of state origin.
3. "The state is the result of a gradual process of historical evolution." Explain.

Chapter V

NATIONALISM

The word "nation" is derived from the Latin word "natio" meaning "birth" or "race". But racialism is not the same as nationalism. Many races have been blended into one nation while it is often found that members of one race have formed parts of several different nations. A nation may be conveniently defined as that exclusive portion of mankind which has developed a distinctive trait of character that marks it off from the rest of the world.

Nation and Nationality

Opinions differ as to the distinction that exists between nation and nationality.

According to one school Nationality is the abstract principle, the concrete manifestation of which is the Nation. In other words the principle itself is known as Nationality while the people who are being actuated by that principle will be called a Nation.

According to the other view a Nationality is a group of men who are united by identity of race, religion, language, custom etc. just as the Marhattas or the Bengalis. A Nation may be composed of many such nationalities. For instance the British are a

nation composed of three different nationalities namely the English, the Scotch and the Welsh.

Constituent Elements of a Nation

According to earlier writers of political science an ideal nation is that portion of human society which has common race, common religion, common language, common territory etc. In other words identity of race, religion, language, territory are essential elements that foster nationalism. Admitting that these factors go far to develop a common outlook and thus help the growth of national sentiment, a little reflection will make it clear that no one of these is absolutely essential for nationhood. By means of historical evidence we can prove that nations have often sprung up even where these elements were conspicuous by their absence. Thus, for example, the fervid nationalism of America proves that common blood is non-essential, for the present American people cannot claim racial purity. Similarly the British nation has become a nation although the nationals do not belong to one religion but are composed of both the Roman Catholics and the Protestants. Common territory again is not essential, for the Jewish nation has no homeland for their own. Lastly common language is of dubious importance in so far as the Swiss nation has overcome the difficulty presented by a variety of tongues.

Thus we conclude that the *sine qua non* of nationhood is not common language, common territory,

common religion, common blood so much as a common outlook and a common feeling uniting the members of the group. As Deslile Burns points out "Common history and common tradition more than common blood that makes a nation."

Judged from this standard India is certainly a nation although it lacks the usual elements of nationality namely common blood, common religion, common territory etc. India is a nation because Indians feel themselves to be a nation. It is this feeling that counts. Sometimes this psychological effect is the product of the identity of race, religion and culture but instances are not rare where the effect was produced by different forces. India is a nation because although she does not possess identity of blood, she can claim common history and tradition. This common out-look has been mostly due to the British rule during the last hundred and fifty years. Suffering in common under a foreign yoke, Indians have been taught the spirit of nationalism and they are at the present moment inspired by identical national sentiment.

Principle of Self-determination

President Wilson stated that "all well-defined national aspirations should be accorded the utmost possible satisfaction through the establishment of mononational states." This idea of one nation one state, more commonly denoted as the principle of self-determination was one of the fundamental reasons behind

the last European war. And to give effect to this principle the post-war world witnessed the birth of several small nations. It goes without saying that unless a nation can become a state it cannot give free play to its national characteristics and therefore so far as possible every nation must have its own political government but the fact must not be lost sight of, that too much insistence upon this principle would lead to very small and weak states on the one hand and huge territorial entities on the other.

Nationalism, Imperialism and Internationalism

Nationalism although wholly opposed to the theory and practice of Imperialism is not opposed to Internationalism as is often supposed. True nationalism instead of being antagonistic to international outlook is, rightly viewed, the very first step towards that higher goal. Unless the national characteristics are developed and the people become politically independent, they cannot combine on an international basis. As Ramsay Muir points out, the two ideals of nationalism and internationalism are not different but essentially one and the same. There can be no nationalism without internationalism and no internationalism without nationalism. They are complementary and go together.

Calcutta University Question

1. What is a nation ? Is India a nation ? (C.U. 1930)

Suggested Questions

2. Define Nationality. Explain its influence on the formation of states.

2. Distinguish a nation from a state and a people.

3. What is the relation among Nationalism, Imperialism and Internationalism.

4. "One nation, one state" What do you think of this new slogan ?

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Chapter VI

CONSTITUTION OF THE STATE

What is Constitution ?

Every state has a constitution. The constitution is the framework of the state. It embodies in broad outline the scheme of the government according to the fundamental principles accepted by that state. The constitution is not the place where the details of the government should be put forth. A constitution may accordingly be defined as the collection of principles according to which powers of the government, the rights of the governed and the relations between the two are adjusted. Sometimes such constitution is found laid down in a document as is the case in America where anybody can immediately be acquainted with the structure of the government by going through a few printed pages available at every publishing depot. But the case would be different in England where there is no such single document outlining in a small compass the broad features of the state. Here the constitution has not been made but has grown imperceptibly and is composed of customary practices and unwritten rules of political conduct which have to be watched and appreciated through long acquaintance.

Classification of Constitution

The old fashioned classification of constitutions was to divide constitutions broadly into Written and Unwritten. A Written constitution is one which is noted in black and white and is in a form easily available to all. An Unwritten constitution, on the other hand, is a constitution which is mostly not to be found in any handy document in black and white but is composed of long-established political practices, customs and conventions and has grown rather than has been made. The American and the English constitutions are classical examples of written and unwritten constitutions respectively.

The above classification is hardly scientific in so far as no constitution is wholly written or wholly unwritten. The American constitution although principally written has much unwritten element in it while the English constitution popularly known as unwritten has many written parts in it. The distinction between the two types thus happens to be mainly one of degree rather than of kind.

Rigid & Flexible

The modern classification suggested by Bryce is that of Rigid and Flexible constitution. The basis of this classification is the distinction that is drawn between the constitutional laws and other ordinary laws of a country. When the constitutional laws are superior to the ordinary laws and are not amenable

to amendment or change by the same body who is competent to alter the ordinary laws, the constitution of such a state would be rigid as the case is in America where the constitutional laws stand on a different footing than the ordinary laws and cannot be altered or modified by the ordinary legislature of the day. Where on the other hand there exists no such difference between the two and the selfsame body of persons can pass or abolish constitutional laws as easily as the ordinary laws of the land, the constitution will be a flexible one, as in England where the present Parliament is quite competent to keep or alter new as well as old laws, unimportant as well as fundamental principles.

Rigid constitutions are generally written while flexible ones are unwritten. But this is not to suggest that distinction between the rigid and the flexible constitution is the same as that between written and unwritten constitutions.

Merits and Defects of Rigid and Flexible

The two outstanding merits of a Rigid constitution are definiteness and stability. A rigid constitution is not vague. It puts down all the fundamentals in black and white. Such constitution is more stable in so far as an extraordinary body and a special method are required to change the constitution. Every gust of public opinion cannot materially affect the constitution in a rigid type as it can do in a flexible one.

The great defect however of a Rigid constitution is that it lacks elasticity and adaptibility. In so far as the constitutional laws are hard to be changed or amended, a Rigid constitution cannot easily adapt itself to changing circumstances. It is conservative in spirit and inelastic in outlook. Hence a Rigid constitution is always threatened by the fear of revolution.

The merits of the Rigid constitution are the defects of the Flexible one and the defects of the Rigid constitution constitute the merits of the Flexible.

Thus the chief merit of a Flexible constitution is its adjustability. Being elastic, it can be twisted and modified to satisfy popular demands from time to time and thus meet revolutions half-way.

But the obvious defect of a Flexible constitution is its vagueness and susceptibility to abrupt changes. Unlike in the Rigid types where constitutional laws are held sacred and immune from cheap popular turns of opinion in a Flexible one age-old principles are sacrificed easily whenever an unscrupulous legislature makes such a demand. It is, in short, indefinite, uncertain and unstable.

It is very difficult, if not impossible, to say definitely which of the two types is to prevail in the future. During the last century every new constitution has been of the rigid type and from this we can hazard the prophecy that the future of rigid and written constitutions is rather bright.

Calcutta University Questions

1. What do you understand by the term "Constitution?" Indicate in brief the merits and demerits of rigid and flexible constitutions. (C. U. 1925)

2. What do you mean by the constitution of a state? Distinguish between (a) written and unwritten constitution and (b) rigid and flexible constitution. (C. U. 1929)

3. Define constitution. (C. U. 1931)

Suggested Questions

1. Define and classify constitution with suitable illustrations.

2. Distinguish rigid from flexible constitution and explain the respective merits and defects of each.



Chapter VII

FUNCTIONS OF THE STATE

The functions of modern states are more numerous than what were thought by the ancients to be the primary duties to be discharged by the state. In the past internal and external security was regarded to be the sole concern of the state but nowadays state functions comprise many more activities directed to promote a healthy and all-sided development of the individual citizen. As has been well remarked "the conception of the police state has given place to that of the culture state." Thus a modern state not only maintains law and order within the state and makes adequate provisions for protection against attack from outside but in addition undertakes many other functions known as public-utility works and nation-building services meant to enable the citizens to realize the best in themselves.

The state functions therefore may be broadly divided into two categories viz (1) Essential functions and (2) Non-essential or ministrant functions.

Essential & Ministrant Functions

The essential functions refer to those primary functions which every state must necessarily perform to justify its existence. These are chiefly two in number (a) Preservation of law and order within

the state and (b) Preservation of security against foreign invasion. It goes without saying that unless these two functions are adequately discharged by the state, there cannot be peace and security without which no progress is possible.

Apart from these two functions which are primary or essential, there are other activities which may be called secondary or ministrant functions to which more and more attention is being paid by modern governments. These include such undertakings as poor relief, old-age pensions, maternity benefits, railways and telegraphs, schools and hospitals etc. for mass welfare. Although a state which does not look to these ministrant functions cannot be denied the name of a state, yet such a state would fall short of the modern ideal of a state.

Regarding the very important issue as to what are the true functions of a state, there are two schools of thought known as Individualism and Socialism.

Individualism v. Socialism

The Individualists maintain that the state is a necessary evil—necessary for the vicious inclinations on the part of man. So the fewer the state restrictions the better. The individual should be left alone as far as possible. The theory accordingly has also been named as that of *laissez-faire*. The state functions should be confined to police and army and nothing more. Thus, as one of the leading advocates has put it "Anarchy plus a street constable is the goal of the individualist."

The Socialists on the other hand insist upon more and more state interference and state control. The Socialist is of opinion that individuals do not know their own interest and free competition does not lead to welfare. The Socialists would justify every sort of interference on the part of the state as they are of opinion that the state always looks to the common good whereas the individuals to their private self interest.

However Individulists might cry, Socialism carries the day. Consciously or unconsciously we are more or less socialistic. In modern times there has been a gradual trsition from the individualistic to the socialistic attitude. Socialism has captured the imagination of the statesmen of the different nations and in every country we find the state coming to discharge more and more functions.

Calcutta University Question

1. Enunciate some of the functions of a modern government (C. U, 1928).

Suggested Questions

1. Describe boardly the functions of the modern state.

2. What are the different theories concering the sphere of government ?

3. "Anarchy plus a street constable" is no more the ideal of a state. Discuss.

Chapter VIII

FORMS OF GOVERNMENT

Although all states are essentially alike manifesting the four fundamental elements of population, territory, unity and organisation, the governments, through which the states carry on their will, admit of classification for they differ in important particulars. The traditional classification of governments is to divide them into Monarchy, Aristocracy and Democracy. The basis of such classification is the number of persons that exercises sovereignty. Monarchy is the rule of one person as in a kingship. It may be regarded as the oldest form of government. Rome in the past and England in the present illustrate this type of government. Monarchy however admits of two different forms. It may be either autocratic and despotic or constitutional and limited. In the former case the monarch is all in all and rules the people at his sweet will while in the latter, the monarch has limited powers of administration. Despotic governments are not tolerated in modern times. The few monarchical governments that exist to-day are all of the constitutional type. The British monarchy is the best example of limited or constitutional monarchy.

Aristocracy is the rule by the few superiors who are better than the rest. Every man is not born

to rule. In every country there are better brains who are natural rulers. Aristocracy is claimed to be better than Monarchy in so far as it does not ordinarily degenerate into tyranny to which monarchy is specially susceptible. Moreover when the best intellectuals of the nation decide things, the result is expected to be better than the decision of one brain of the king. If however the few best brains are not actuated by public spirit and national service but rule for their own selfinterest such Aristocracy will be called Oligarchy, a degenerated and perverted form of Aristocracy. Although in modern times there is no specific case of Aristocratic government, all democratic governments where the representatives of the nation rule are indirectly Aristocratic in practice. The English parliamentary government is aristocracy by delegation.

While Monarchy and Aristocracy insist upon quantity, Democracy, as a form of government, lays stress on the quality. Democracy is the rule of the people by the people. Aristotle, one of the most early writers, called it mobrule and decried it as inefficient and anarchical. But in modern times democracy is regarded as the ideal form of government, although in point of efficiency it may not stand in comparison with either Monarchy or Aristocracy provided the latter are true to the cause of the nation. Yet Democracy is to be praised on the ground that it has an educative influence on the people. While monarchy and Aristocracy make the slave of a man, Democracy

infuses a political consciousness and teaches him self-government. This view has been beautifully expressed in the sentence "Good government is no substitute for self-government."

Democracy may be either direct or indirect. Direct Democracy prevailed in the city states of Greece in the past but is now obsolete. Indirect Democracy is the order of the day. In Direct Democracy all the citizens assemble in mass meetings and decide issues. In modern nation states that is not practicable and accordingly Indirect or Representative democracy has supplanted Direct democracy. In Indirect democracy, not all the citizens but only their representatives participate in government. The electors or citizens participate only indirectly through their accredited agents or representatives. So it is known as Indirect or Representative democracy.

This old classification of governments into Monarchy, Aristocracy and Democracy is too simple and elementary to satisfy the complexities of modern political organisations.

As such one distinguished writer on political science gives us the following five-fold classification of governments :—

(a) From the standpoint of the relation of the constitutional laws to the ordinary laws, governments have been divided into Rigid and Flexible. Where the two sets of laws stand on different footings the government is Rigid while if it is Flexible there is no

superiority of constitutional laws over the other ordinary laws of the land.

(b) From the standpoint of the relation of the local authorities to the central, governments have been divided into two categories—Unitary and Federal. The Government of England is a unitary type of government while the American United States is a federal type of government. In a unitary type the government is centralised and the local government is the mere creature of the central but in a federal structure the local governments are independent of central to a great extent and the government is decentralised.

(c) On the basis of the relation which the executive of a country has to the legislature, governments have been classified into Parliamentary and Presidential. England exemplifies the former while U. S. A. is the foremost of all presidential types of government. In a Parliamentary government, the executive is controlled by the legislature, as in England where the cabinet is nothing but a Committee of the Legislature. In a Presidential government the chief Executive is more or less independent of the Legislature as in America where the President has much more independence of action than the Prime Minister has in England.

(d) On the basis of the specialisation of the government servants, governments have been divided into Bureaucratic and Popular. In Bureaucratic governments entry into the services is governed by rigid rules and the permanent services are not dis-

turbed by the changes in the government as in England where the Permanent Civil Service is a very good example of bureaucracy. In the Popular type, on the other hand, services are not so specialised and offices terminate at every change of the colour of the government. When a new party comes into power in America, the whole set of public servants are removed. This practice is known as spoils to the victor and is the ear mark of popular governments.

(e) From the standpoint of the thoroughness of the functions of a government, Governments have been broadly classified as Individualistic and Paternal. In an individualistic government, the government is charged with a few functions generally leaving the individual sufficient scope of action. While in a paternal government every field is controlled by the state and every move is initiated by the Government.

Calcutta University Question

1. Discuss briefly the different forms of government and their respective merits and defects. (C. U. 1936)

Suggested Questions

1. "Governments have been broadly classified into Monarchy, Aristocracy and Democracy". Discuss.

2. What is according to you the best form of government ?

3. Give briefly the old and the new classification of governments.

Chapter IX

STRUCTURE OF GOVERNMENT

The business of a modern government divides itself into three main parts—legislative, judicial and executive. The legislature passes laws or general rules of conduct for the citizens. The judiciary applies the general laws to individual cases while the executive enforces the laws as applied by the judicial officers.

Theory of Separation of Powers

Montesquieu, the famous French political philosopher, insisted that if liberty of the citizen is to be maintained, these three powers or functions of the Government must not be placed in one hand as in a Monarchy. He said that tyranny would result if all the three kinds of powers are concentrated in one functionary. There should be three distinct persons or bodies of persons exercising these three powers. In ancient times this separation of powers was not practised and the result was that more often than not tyrannical laws were passed to be tyrannically applied by the same person who made laws and enforced them. The theory of Montesquieu greatly impressed the 18th and the 19th Centuries and the American and the French revolutionists modelled the govern-

ment of their countries according to the strict separation of powers.

To the theory of Montesquieu it must be said that his apprehension about the jeopardisation of liberty through the concentration of powers is sound but the mechanical check of one department upon another as suggested by him is no real check at all. Further a strict separation is impracticable as England and America would bear witness. In England no separation exists and still the liberty of the individual is thoroughly safe while in America it is maintained in form but does not work in practice. Moreover a strict separation if enforced, in practice would lead to frequent deadlocks and government would often come to a stand still.

But although a rigid separation of powers is thus neither desirable nor practicable, some demarcation of the spheres is still necessary. The conferring of judicial powers on an executive officer, as is done in India, should be avoided by all means. Similarly the usurpation of the legislative powers by the executive as is the case with the Viceroy of India is equally pernicious. In the districts of British India, the magistrate has both judicial and executive powers which go to take away the liberty of the individual. The huge power of the Governor-General of India over the legislative and the judicial departments again are against the best interests of the Indians and in these cases the point of Montesquieu is thoroughly vindicated.

The Legislature

The duty of the legislature is to frame laws of the land. Laws are general rules of conduct that protect the rights of the citizens.

Process of Law-Making

The procedure of lawmaking is however not uniform in every country. Yet in all modern democracies legislation has to pass through different stages. The first stage when a motion is made with regard to a new law to be framed is known as the First Reading. The First Reading of a bill is usually a simple and formal matter. The introducer moves for leave of the house to bring in the bill and he reads the title of the bill. No debate or voting takes place at this stage. The house however orders the bill to be printed.

The next stage is known as the Second Reading. Here full discussion and real debate take place after detailed discussion on the measure, if the bill is carried by a vote of the majority, it is referred to the Committee.

In the Committee stage, the bill, as it stands, is thoroughly examined by a body of expert lawyers and amending clauses are introduced.

After the Committee stage the bill passes through the Report stage and is sent back to the house in the form of a Report from the Select Committee.

In the Third reading votes are taken and the bill as shaped by the committee is considered and passed.

If there be two houses composing the legislature, all the five stages are gone through in both the houses.

Functions of the Legislature

Apart from the main function of enacting laws, the legislature of a country has various other functions of a miscellaneous nature. It affords the safe platform where the action of the executives are criticised. It is a debating society where the best brains pull the legs of one another. In a modern democracy, the legislature is the most powerful organ as it controls the finance of the country and also controls the executives. In a parliamentary democracy, as in England, it can easily remove the executive by carrying a vote of censure against the Government.

Unicameral vs. Bi-Cameral System

The legislature of a country may be composed of either one house or two houses. Accordingly the legislature will be known as unicameral or bi-cameral. In almost all modern communities such chambers of the legislature contain elected representatives. Sometimes hereditary members are found as in the House of Lords in England. The modern tendency is that the Lower chamber is everywhere concentrating more power through its control over the public purse. It is only in U. S. A. that the upper chamber has equal financial power as the lower one.

A bi-cameral system has the following merits ;—

1. Two houses instead of one act as mutual check upon hasty legislation.

2. Two houses give greater facility for the representation of different interests in the country than one house.

3. The upper house may be composed of elderly statesmen of mature experience for specialised knowledge to bear upon the government of the day.

The obvious defects of the bi-cameral system are :—

1. If the second chamber is in agreement with the first it is superfluous ; if it is not, it is pernicious.

2. The upper chamber is generally conservative and it is often hostile to the liberal and progressive spirit of the other chamber.

Bi-cameral legislature is the order of the day. It is gaining ground every where. In India the Act of 1919 made the central legislature bi-cameral while the new Act of 1935 has given two chambers to many of the provinces too.

The Executive

The Executive refers to the whole body of that portion of the governmental machinery which enforces the orders of the state. The Executive in most democracies is partly temporary and partly permanent. To take the case of England, the cabinet ministers are

temporary executives while the members of the Civil Service are permanent executive officers. This bureaucratic touch in the executive branch is necessary for excellence which only a trained body of experts can achieve.

The choice of the executive is a difficult thing. In the past when monarchies prevailed, the method was either hereditary or elective. In modern democracies where the presidential form of government prevails the choice is effected in either of the three following ways :—He may be directly elected as in Germany or indirectly elected as in U. S. A. or elected by the legislature as in France.

The Judiciary

The Judiciary is the remaining department of the government. The function of the judiciary is to interpret the law and to apply the same to particular cases. Where there is no provision made by law, judges decide issues basing their judgement on principles of equity, justice and good conscience. Thus in a sense judges are creators of law.

The judges must be, to be serviceable, above all impartial and independent. The independence of the judiciary can be secured if judges are selected rather than elected, given handsome salaries and when appointed can only be removed on proof of gross negligence of duty or serious misconduct.

Calcutta University Questions

1. Indicate the advantages of separation of powers and illustrate them from Indian conditions. (C. U. 1926),

2. "The strict separation of power is not only impracticable as a working principle of government, but is one not to be desired in practice." Comment on this statement. (C. U. 1934).

3. "The business of a modern government divides itself into three main parts—legislative, judicial and executive." Illustrate (C. U. 1935).

Suggested Questions

1. Describe briefly the modern system of law making.

2. Give the arguments for and against bi-cameral legislature.

3. How far is the theory of separation of powers tenable ?

Chapter X

DEMOCRACY

Democracy

Of the three main types of Government namely Monarchy, Aristocracy and Democracy, the last has steadily displaced the other two. As a matter of fact over almost the whole of the civilized world, democracy in some form or other has come to be accepted. The few monarchies that still linger here and there, as in England and Italy, are monarchies in name only being wholly constitutional governments, where the power of the monarch is limited by the prescription of the people.

Democratic or Popular Government

Democratic government is called popular government as the entire body of citizens participates in the running of the government either directly or indirectly. The sovereign power is vested in the people and is exercised by the people. It is a government based on the consent and co-operation of the governed. Abraham Lincoln one of the most ardent lovers of Democracy defines it as "a government of the people, for the people, by the people."

Direct or Indirect Democracy

Direct democracy where all the citizens assemble in mass meetings to decide political issues existed in the small city-states of ancient Greece and Rome but is obsolete nowadays. Modern democracies are representative in character. The government is carried on by the chosen representatives of the people, for in big states of to-day direct participation by all is out of the question. Although direct democracy is not active at the present moment some of the methods of direct democracy have been found useful and have been introduced in many modern states. The more important of these practices are the Referendum, the Initiative and the Recall. Referendum is the people's veto. When a law is passed by the legislature it is submitted to the people for their sanction. If they endorse the view of their representatives, the law comes into effect. Initiative is the opposite method of forcing a law on the government by the people. If the electorate think a law necessary they can move it through the Initiative. Lastly we have Recall, the power of the people to call back their representative and send another in his place provided the former is found not acting according to the wishes of those who nominated him.

Parliamentary and Presidential

Representative Democracy which is the order of the day, assumes broadly speaking two forms namely Parliamentary and Presidential. The Government of

Great Britain is the classical example of Parliamentary Democracy and America on the other hand is the best example of Presidential system. In the Parliamentary or Cabinet Government, the real executive is held responsible to the Legislature and can be removed by a vote of no confidence. It is for this reason that Parliamentary Democracy is known as Responsible Government for in such Democracy responsibility of the Government to the people can be ensured and enforced. But in the Presidential system, as it obtains in America, the President who is the head of the Executive is constitutionally irresponsible and is not under the control of the Legislature.

Merits of Democracy

The excellence of Democracy as a form of government may be broadly laid down as follows :—

(a) It is the ideal form of government as it treats everybody equally and vests the sovereign power in the electorate and not in any class.

(b) It is the only form of government in which responsibility of the governors to the governed can be secured.

(c) It is more efficient than any other form because more and more people take part in the government and vigilantly protect their interests.

(d) It is a training ground for citizenship and infuses spirit into the passive subjects in the nation.

Demerits of Democracy

Democracy however is not without its dark side. It has more than one defect, provisions against which must be thought out if the world is to be made safe for Democracy. The defects mainly are:—

(a) It wrongly emphasises quantity at the cost of quality. It rests upon the false theory that every man is equally competent to rule.

(b) Another drawback of Democracy is that it often neglects the importance of training and specialisation in the technicalities of governmental business.

(c) Being the government by all, the democratic government is really responsible to none. As Lecky points out "Democracy insures neither better government nor greater liberty."

On a balancing of the merits and defects of Democracy, we find that the advantages far outweigh the defects. In spite of its shortcomings in more than one direction it has been the most dominant type in modern times. In quick succession it has captured one country after another and, until recently, was the sole model for governments.

Democracy and Dictatorship

The phenomenal rise of dictatorship in several countries in the 20th century has however meant a set-back to the march of Democracy. It is very difficult to predict which of these two ideals will

ultimately triumph. Rome and Germany, the two foremost among the countries having aggressive dictators have found fault with democratic government and they have summarily rejected it. In order to promote the greatest good of the greatest number these Governments are now running counter to the ideals of equality, liberty and fraternity. We live too near the time to pass any final judgment against democratic ideal which is still adhered to by such countries as U. S. A., France and England.

One of the basic reasons for the denunciation of democracy in modern times is that it requires a good deal of the ordinary citizen who is incapable of so much judgment, foresight and fellow-feeling. It goes without saying that if democracy is to survive, the citizens must show greater intelligence and better spirit. The level of political consciousness of the layman has to be raised through more education and higher democratic ideals.

Calcutta University Questions

What do you understand by Responsible Government ? (C. U. 1926).

2. Define Democracy. Describe briefly the process of law-making in a democracy. (C. U. 1927).

3. Point out the merits and demerits of Representative Democracy. (C. U. 1928).

4. Indicate briefly the merits and demerits of Popular government. (C. U. 1931).

5. What do you mean by Responsible Government? Are the Governments of Bengal and of India instances of Responsible Government? (C. U. 1931).

6. What is Popular Government? Mention the essentials of such a government. (C. U. 1932).

7. "Democracy may be classified broadly under two distinct divisions—direct and representative",

Explain and illustrate. (C. U. 1935).

Suggested Questions

1. "Democracy is the government of the people, for the people, by the people." Explain this definition of Democracy by Abraham Lincoln.

2. Compare and contrast Parliamentary and Presidential Democracy.

3. How far is the modern dictatorship a challenge to the democratic ideal?

Chapter XI

FEDERATION

What is a Federation ?

A federation is a union of states without unity. Where previously independent states want to sink their differences and like to combine and have a strong central government for certain matters of common concern, it is convenient to form a federal government. So it has been said that federation is a political contrivance to combine national unity and power with the maintenance of state rights. Although the several states forego their sovereignties and form one sovereign state, the local independence is left unimpaired. Only in matters of common concern or specified subjects to be controlled and administered jointly that the federal or central government can interfere. Thus in U. S. A. 48 independent states are united into a federation but the states have freedom of action in all local matters. Only a few limited subjects of administration have been made over to the federal government for uniform action.

Three Essentials of a Federation

The three essential requisites of a federal government are :—

1. A written constitution which is sovereign and

which demarcates the respective field of administration for the central and the local governments.

2. Distribution of powers which is another important feature of a federation and which implies that as far as possible the respective powers and restrictions of the central government and the local government should be clearly laid down so that neither of the two parties having the powers may be able to trench upon the jurisdiction of the other.

3. Lastly there must be an independent federal judiciary which is another necessary feature designed to interpret the constitution and settle matters of dispute that may arise between the units of the Federation or between the central authority and the units.

Federal Government as distinguished from Unitary Government

In order to understand clearly the nature of a federal government we must distinguish it from a unitary government. The points of distinction between the two are mainly the following :—

1. Federal Government is decentralised government while unitary government is centralised government.

2. In a federation the local governments are more or less independent while in a unitary government the

local governments are mere agents of the central government.

3. In a federation the constitution is sovereign while in a unitary government the central government is sovereign.

4. In a federation, a citizen is clothed with a double citizenship while in a unitary government there is single citizenship.

The types of Federation

The distribution of powers between the central government and the local governments is not uniform in all federations. On the basis of this distribution federations have been broadly divided into two classes—the Australian and the Canadian. In the Australian type the central government is given only a few specified subjects of administration, every unspecified residuary power being with the Local Governments. In the Canadian Type on the other hand the central government is the more powerful of the two having all the residuary powers, a few matters specifically enumerated being made over to the local governments.

Merits of the Federal Government

The benefits of a federal government may be broadly stated thus:

(a) It affords the only means of combining into one strong government a number of weak and

scattered states when the individual states desire to maintain local independence.

(b) When the country is very big having local diversities, as in India, it in the only form of government suitable.

(c) The independent local governments train the people in the virtues of citizenship and democracy.

Demerits of the Federal Government :

The federal ideal however is not without its dark features :

1. The federal government is more intricate and complicated than the unitary government.

2. The federal government is after all a weak government and both in internal and foreign matters it lacks boldness and spirit that characterise unitary types.

3. Being a double government, a federal government entails more trouble, expense and delay.

4. Such government moreover is comparatively unstable being ever open to dissolution by the secession of the states forming the federation.

Future of Federation :

"Just as in the middle ages, the tendency was towards feudalism, in the fifteenth and sixteenth centuries towards absolutism, so at the present time the movement seems towards federalism." In the 15th

century the U. S. A. was the only federation of note but later on we had not only such federal governments as that of Canada, Australia and Switzerland but modern types in South Africa and Germany. The latest to be added to this category of federation will be the Government of India as forecasted by the new constitution. The political condition in India strongly favour a federal form of government. "India was so long a unitary government contemplating federalism" as Frederick Whyte, the first president of the Central Legislative Assembly so beautifully expressed the situation after the Montford Reforms of 1920. By the new Act of 1935 there will be an all India federation combining the autocratically governed Native States on the one hand and the democratically governed British Indian Provinces on the other. Had not this federal principle been evolved, India would long have been deprived of national unity and power. It may be pointed out incidentally however that Indian federation will not resemble any of the existing federations but will be a class by itself.

Calcutta University Question

1. What is meant by a federal government ? What are its merits ? (C. U. 1935).

Suggested Question

1. Define a Federal Government and distinguish it from a unitary government. What are the essentials of a federation ?

Chapter XII

CITIZENSHIP, RIGHTS AND DUTIES

Definition of the Citizen

The Citizen is the member of a political community. As the member of a state he enjoys protection of the state at home and abroad and in return has to obey the state in all matters. In other words the citizen has both rights as well as duties. Rights refer to those privileges which the 'state guarantees unto him while duties are such corresponding obligations which the citizen must render unto the state.

The citizen has accordingly been defined by Vattel as the member of a political society, bound to his society by certain duties, subject to its authority and equal participator in its advantages.

Citizen and Alien

All who are residents in the state however are not citizens. Among the residents there are aliens or foreigners who owe allegiance to other states and as such are not citizens. Citizens moreover fully enjoy all the civil as well as political rights whereas as a rule in almost every state aliens are allowed to enjoy the civil rights alone. Formerly aliens were very much suspected and had to labour under various disabilities

which are being gradually removed with the dissemination of culture in modern times.

Acquisition of Citizenship

Citizenship is acquired either by birth or by naturalisation. The former is the natural way of acquiring it while the latter is the artificial means. Citizens by birth are called Natural citizens as distinguished from those by naturalisation who are known as Naturalised citizens. Ordinarily there is no distinction made between the two kinds of citizens just enumerated although some states still persist in treating Naturalised citizen as inferior in status to Natural-born citizens of the land.

Citizenship by Birth

Citizenship by birth follows one of the two principles namely Jus Soli or Jus Sanguinis. According to the principle of Jus Soli, the place of birth determines the nationality of one who is born. Thus a person born in France will be a French citizen while one born in England will be a British citizen. The principle of Jus Sanguinis on the other hand makes the citizenship depend upon the blood relation. In other words according to this latter principle the new-born child inherits the citizenship and the nationality of its parents. Thus children born of British parents are British citizens while those of French citizens would be French.

Sometimes a country takes advantage of both these principles as is the case with Great Britain, which applies the two principles simultaneously. Thus persons born of British parents in foreign lands become British citizens by the principle of Jus Sanguinis while children born of foreigners within the British Empire become British citizens according to the other principle of Jus Soli.

Citizenship by Naturalisation

The artificial way of acquiring citizenship is known as Naturalisation. It has been defined as "the act of formally adopting a foreigner into the political body of the nation and of clothing him with the privileges of a native." A person desirous of being naturalised has to apply to the proper authority and on the fulfilment of certain conditions, which differ from country to country, is allowed to become the naturalised citizen. One of the conditions usually insisted upon is the period of residence, which in the case of England is five years.

Apart from the Naturalisation proper just discussed, there may be virtual Naturalisation in one of the following ways :—

- (1) Legitimation of an illegitimate child.
- (2) Naturalisation of children through that of the parents.
- (3) Naturalisation of a woman through marriage with any foreigner.

(4) Naturalisation through the purchase of real estate in a foreign land.

(5) Naturalisation through service in the army, navy or other diplomatic lines of a foreign state. etc.

Loss of Citizenship :

Just as citizenship may be acquired so also citizenship may be lost. A person may lose his citizenship in one of the following circumstances :

(1) By marriage—when a woman marries a foreigner, she loses her former citizenship and acquires that of her husband.

(2) By absence—when a person keeps away from his state for a very long time and does not keep in touch with his native place he loses the citizenship.

(3) By entrance into foreign state service—when a person is appointed an officer in an alien government he ceases to be the citizen of his former land.

(4) By conviction for crime—when a person is convicted of treason or felony against the king of the state he automatically loses the patronage of that state and his citizen rights are annihilated.

(5) By dismissal from state service—once a person is dismissed from the diplomatic services for some grave misconduct or *mis-demeanour* he loses his citizenship of that state.

(6) By naturalisation abroad—when a person exercises his choice and formally registers himself as a

citizen of a foreign country, his citizenship acquired by birth is lost.

Rights and Duties of a citizens :

Right has been defined as the power which a person has of influencing the acts or forbearances of others not by means of his own prowess but that of the strength of the state. Thus we see that Right is to be distinguished from Might. Again when we use Right in politics we mean by it Legal Right as opposed to Moral Right. A Legal right is a privilege which is enforced by the state whereas a Moral right has its sanction in moral approbation or disapprobation.

The legal rights of a modern citizen broadly fall under two classes :—Civil Rights and Political Rights.

Civil Rights

The chief civil rights of a modern citizen may be briefly discussed as follows :—

(a) Right to personal safety and freedom :—

Prof. Dicey defines the liberty of the person as a "person's right not to be subjected to imprisonment, arrest or other physical coercion in any manner that does not admit of legal justification." It consists in a person's unrestricted enjoyment of his life, his limbs, his body and his health. This liberty of the citizen is safeguarded in England by that precious enactment known as the writ of Habeas Corpus. By that injunction no person can be wrongfully

detained or imprisoned. Right to personal safety again is so valued a right that law allows even the use of force of arms in self-defence.

(b) Right to Enjoy Property and Domestic Life :—

The exclusive enjoyment of his private property by the owner is another civil right jealously guarded by the state. Any violation of this right is attended with punishment. The owner can do whatever he likes with his property and can enjoy it in any manner he likes. If an intruder happens to enter into his apartments without his permission, he becomes a trespasser and is accordingly dealt with.

(c) Right of Belief and Conscience :—

Every citizen has the right to worship God according to his own conscience and can cherish any religious belief he prefers. In order that one's personal life may be freely developed, one must be allowed complete freedom of thought and conscience.

(d) Right of Meeting and Association :—

This right follows as a corollary from that of the right of a person to move about freely. Man is by nature a social animal. He will naturally meet others, deliberate with others and associate with others for his various economic and political aspirations. So long as the meeting is not unlawful, it is sanctioned by every system of law. Generally when seditious speeches are delivered or open violence is resorted to by the associates, a meeting becomes unlawful.

Thus the right of free movement and meeting is a right so long as it does not come to clash with any other right of the citizens as safety of person or free movement.

(e) Right of Free Speech :—

Freedom of thought and its expression in speech and writing is another equally valuable civil right of the citizen. He can fearlessly say, criticise and pass his opinion on public questions. Freedom of speech and freedom of press go together. Honest and bona-fide criticism of the government as well as the public is allowed by this right. But any malicious propaganda or wilful misstatement of fact or concealment of facts would be illegal and against public policy. Free speech when degenerates into libel or slander or sedition, becomes a crime.

Political Rights

Political rights are less numerous and are principally three in number :—

1. Right to Vote :—

The honest exercise of franchise is the just political right by means of which the modern citizen chooses or elects representatives who would rule the country on his behalf.

2. Right to Hold Office :—

In a fully democratic state every citizen has equal right of competition and occupation of the highest office of the state.

3. Right to Petition the Govt. :—

Every Citizen has the privilege of moving the state authorities for the redress of his rightful grievances if any.

Duties of the Citizen :—

A Duty may be defined as the obligation which binds the citizen. Just as he has rights, so also he has his corresponding duties or obligations to render.

The Chief Duties of a Modern Citizen are :—

1. Allegiance to the sovereign authority in the state is by far the foremost obligation of the citizen. He must have complete and unqualified attachment to the supreme authority as the subject to his sovereign.

2. Obedience to the laws of the state is no less a duty which the citizen has to pay towards the ruler and arbitration of courts in the state. He must in no way violate or help to violate the laws.

3 Payment of taxes, exercise of vote, assistance to police are some of the other minor duties of the modern citizen.

Relation between Right and Duty

A little reflection will make it clear that Right and Duty are correlated. One cannot exist without the other. Every Right corresponds to a Duty and every Duty to a Right. Thus for example the right of the enjoyment of property on the part of X implies

that every other person except X has a duty towards X as not to disturb him in his enjoyment of right. If the state has the right of enforcing obedience to its orders, it has similarly the obligation to give adequate protection to its nationals both home and abroad. Thus we see that Right and Duty go together. They are but the two sides of the same shield.

Elements of Good Citizenship

The ideal citizen must be enlightened, vigilant and public spirited. He must care more for the welfare of his fellows than for the promotion of his own self-interest. He must be honest, truthful and straight forward in everything. Above all he must be god-fearing and a person who can not be bought or seduced easily.

According to Bryce, the authority on these questions, the excellence of a government depends upon the extent of the civil capacities of its citizens. They consist of Intelligence, Self control and Conscience. Opposed to these qualities are Stupidity, Ignorance, Self-indulgence and Want of devotion to duty. E. M. White wholly concurs with him when she enumerates the qualities of good citizenship to be Common sense, Knowledge and Devotion.

Hindrances to Good Citizenship

If the civic ideal is to be realised not only are systematic efforts required for the development of

certain qualities in the citizen but it is equally important that the hindrances that stand in his way should also be removed. These hindrances to good citizenship are, according to Bryce, three in number—Indolence, Private Self-Interest and Party Spirit.

The remedies suggested by the same authority as correctives of those hindrances are (a) mechanical improvement through the reform of the laws and the institutions and (b) ethical improvement through the uplifting of the character and mentality of the people.

Calcutta University Questions

1. "Rights imply duties" Explain. Enunciate some of the important rights enjoyed by a citizen in a modern state. (C. U. 1927).

2. (a) Define citizenship. (b) What are the rights and duties of a citizen ? (C. U. 1928).

3. Bring out clearly the distinction between a citizen and a resident alien. What are the fundamental obligations of a citizen ? (C. U. 1929).

4. Rights of a citizen have their corresponding duties. Discuss. (C. U. 1930).

5. Define Rights, Enumerate the civil rights of a citizen. (C. U. 1931).

6. Rights and duties go together.—Explain. (C. U. 1932).

7. What do you understand by the phrases 'freedom of speech and freedom of the press' ? (C. U. 1923).

8. Describe the rights and privileges of a citizen in a modern state. Are there any obligations to which a citizen is subject ? (C, U. 1934).

9. Discuss the rights and duties of citizen in a modern state. (C. U. 1935).

10. Discuss the main obstacles to the exercise of good citizenship. (C. U. 1928) (C. U. 1931).

11. What are the characteristics of a citizen ! Distinguish him from an alien. (C. U. 1930).

12. Distinguish between a natural citizen and a naturalised citizen. (C. U. 1931 ; C. U. 1933).

Suggested Questions

1 Define a citizen and distinguish him from an alien and a naturalised citizen.

2. How is citizenship acquired and lost ?

3. Enumerate the Rights and Duties of a citizen.

4. What are the elements of good citizenship ?

5. What are the hindrances to good citizenship ?

Chapter XIII

LAW

What is Law ?

Law is the will of the state concerning the civic conduct of those under its authority. This will may be more or less formally expressed : it may speak either in custom or in specific enactment. For the existence of law there is needed in all cases alike (1) an organic community capable of having a will of its own and (2) some clearly recognised body of rules to which that community has, whether by custom or enactment, given life, character and effectiveness. The nature of each state therefore will be reflected in its law, in its law too will appear the functions with which it charges itself ; and in its law will it be possible to read its history.

Definition & Nature of law

Law has been defined by the eminent jurist Austin simply as the order of the sovereign power. It is a command and not a counsel. It is a general proposition affecting all. It is attended with sanction and enforced by the courts of justice.

Sources of Law

Custom—By far the earliest source of Law is custom, But no one can say definitely how custom is formed.

except that it is formed by the co-operative action of the whole community. It is not formed always in the same way ; but it always rests upon the same foundation ; upon the general acceptance of a certain course of action as best or most convenient.

Religion—Religion is another source of law. In the earliest times Custom and Religion are almost indistinguishable ; a people's customs bear on every lineament the likeness of its religion.

Adjudication is that source of Law which goes by the name of judge-made law. One of the busiest and one of the most useful, open-minded and yet conservative, makers of Law under all systems has been the magistrate and the judge. And these authorities giving their decisive support turn customs into the laws of the land.

Equity too is judge-made law but it is made not in interpretation of, but in addition to, the laws which already exist. It is then really one of the sources of Law.

Scientific discussion refers to that carefully formed opinions of learned text-writers and research-workers which have often been accepted as decisions on law.

Legislation—that deliberate formulation of new law to which the name Legislation is given, is for us of the modern time, the most familiar and the most prolific source of law. It is gradually superseding the other sources although Equity and Adjudication still continue to exercise notable influence on law making.

Universality of Legal Conscience

The correspondence of law with national character, its basis in national habit, does not deprive it of all universal characteristics. Many common features it does wear among all civilized peoples. As the Romans found it possible to construct from the diversified systems of law existing among the subject peoples of the Mediterranean basin, a certain number of general maxims of justice out of which to construct the foundation of the celebrated Jus Gentium ; so many jurists to-day discover in all systems of law alike certain common moral judgments, a certain evidence of unity of thought regarding the greater principles of equity. Facts like obedience to parents, the plainer principles of mine and thine, the obligation of promises etc. are the same in all races of the world.

Law & Ethics

Law and Ethics are far different. Ethics concerns the whole walk and conversation of the individual, it touches the rectitude of each man's life, the truth of his dealings with his own conscience, the whole substance of character and conduct, righteousness both of act and of mental habit. Law, on the other hand, concerns only man's life in society. It not only confines to controlling the outward acts of men ; but it limits itself to those particular acts of man to man which can be regulated in accordance with uniform rules applicable to all alike and in an equal degree.

Law & Authority

If, then law be the product of national character, if the power of the community must be behind it to give it validity and the habit of the community in it to give it reality, it is apparent that law cannot exist without authority or sovereignty. In other words law is made by the sovereign and upheld by the sovereign. Where there is no authority there can be no law. The existence of law in the state of Nature is a myth. Natural laws are not laws in the strict sense of the term. In a state of nature there is no definite authority, every man is his own judge and magistrate, naturally there can be no law in such a state in the sense in which we understand it here.

Law & Liberty

Every law is essentially a restraint on the free will of man whereas Liberty implies the absence of all restraints. Naturally therefore it appears that Law and Liberty are antagonistic. But a little reflection will make it clear that real liberty cannot exist without law and without authority. It is not liberty but license that can exist without law. The power to do whatever one wishes is not liberty but license ; liberty means such freedom of action as is consistent with the equal freedom of others. In this sense law furthers the cause of liberty rather than retards it. A single illustration will make the thing clear. The traffic law enjoining every driver to keep to the left of the highway is in a sense a restriction on the

liberty of those who drive cars but viewed rightly the law helps to maintain liberty more than take it away. Had there been no such law collisions would be frequent and the life of every body would be in danger. Thus the law although apparently hostile to the liberty of the people is really speaking conducive to liberty. Thus liberty is only possible where there is law and authority.

Calcutta University Questions

1. Explain the term "Liberty." Is it consistent with "Authority ? (C. U. 1928).
2. What do you mean by Law. ? (C. U. 1930)
3. Explain fully civil and political liberty with illustrations. (C. U. 1929.)
4. "Law is the condition of Liberty." Explain. (C. U. 1930).
5. Define Law. (C. U. 1931).
6. Explain the relationship between Law and Liberty. (C. U. 1932)
7. Write a short note on political and civil liberty. (C. U. 1932).
8. Examine the statement "Law is the condition of Liberty." (C. U. 1933).
9. In what sense is Liberty a creation of the Law ? (C. U. 1935).

Suggested Questions

1. Define Law and explain its characteristics.
 2. Explain the different sources of Law.
 3. Show how law is related to morality.
 4. Discuss the relation of law to authority and to liberty.
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Chapter XIV

PUBLIC OPINION

What is Public Opinion ?

Public opinion is the predominating sentiment among the people with regard to any problem of public interest. The more generally an opinion is held the more public it is said to be. Public opinion however is not the unanimous opinion of all, nor even the opinion of a majority of the people. As Lowell so well puts it "in order that opinion may be public, a majority is not enough and unanimity is not required." A majority of the people may hold a certain belief upon any public question ; but if they hold it lightly we do not speak of their sentiments as public opinion. Public opinion again is not the opinion of different interests or of different communities but it is an opinion based on reason which aims at the welfare of the community as a whole. In the words of Rousseau it is the General will of the community, the product of the conscious recognition of the common good principle by the people. Public opinion further must be such that while the minority may not share it, they feel bound by conviction, not by fear, to accept it.

Public Opinion & Popular Govt.

The democratic or popular government is the government guided and controlled by public opinion. The

justification of this control of public opinion lies not in any assumption that the people would always be in the right but in the belief that on the whole it is more likely to be right than the opinion of an individual or a mere group. Public opinion is secured by the dictum that "it is possible to fool some of the people for all the time and all of the people for some of the time but not all the people all the time." In the days of autocracy and despotism, the public opinion was ignored as the grunting of the swinish multitude but the modern democratic age has enthroned the same in the seat of power and regards it as the intention of the almighty—*Voxpopuli, vox dei*. (the voice of the people is the voice of God.)

Public Opinion & Legislation

The connection between public opinion and legislature in modern times is very close and intimate. The modern legislatures are controlled by the popularly elected representatives who pass laws in accordance with public opinion. Dicey however points out three main difficulties that often stand in the way of laws being the result of public opinion. These are ;—

- (1) No opinion on the subject may exist.
- (2) The opinion which directs legislation may not be the real public opinion.
- (3) There may be lacking the necessary organ to give effect to the public opinion.

Organs of Public Opinion

No perfect method has as yet been devised whereby public opinion may be correctly ascertained. Among the usual organs that voice public opinion and help the formation of the same, the Press, the Platform and the Party are the most important.

Press—The place of the printing press in a modern democratic country is very important and the role that it plays in formulating and focussing public opinion is strategic. Newspapers are the agencies for vindicating public grievances and attracting the notice of authority to the burning public questions of the day. But the great danger of the press is its opportunity to abuse its power. Oftentimes personal opinion of the editors are advertised as public opinion which lead to great harm and public mischief. The newspapers should be alive to this danger and never allow sectional interests to gain over the broad national interests of the country.

Platform—Educational institutions, public meetings and the legislative arenas are no less potential fields where public opinion is reflected, discussed and filtered. By discussions and speeches the opinion of the majority comes to stay as the decided view of all.

Party—The political party helps a great deal to mould the public opinion. In disentangling the major political issues confronting the country, in presenting them in their different perspectives, the different parties in a nation go a good deal to influence

and colour the public opinion. The party in order to correctly forecast the public opinion must not be actuated by sinister partisan spirit but must have the healthy national outlook before it.

In conclusion we might say that an alert and intelligent public opinion is the first essential of democracy. The more are the above agencies perfected, the more careful and exact will become the public opinion of the country. Adequate safeguards should be taken against the serious peril of public opinion being poisoned at its very source.

Calcutta University Questions

1. What is meant by Public Opinion ? How does Public Opinion influence Popular Government ?
(C. U. 1929).

2. Explain the nature of Public Opinion. How does Public Opinion influence legislation ?
(C. U. 1930).

3. What are the chief agencies that mould the Public Opinion in modern times ? Discuss the strength and limitations of these agencies. (C. U. 1934).

4. "An alert and intelligent public opinion is the first essential of democracy." Discuss (C. U. 1936).

Suggested Questions

1. "In order that opinion may be public a majority is not enough and unanimity is not required." Explain

2. Define Public Opinion and explain the part that it plays in modern governments.

Chapter XV

PARTY SYSTEM

The modern democratic government is essentially a party government. In the representative democracies, the party which is in the majority in the legislature assumes the reins of government while the minority forms the opposition. Thus in Great Britain from very ancient time we find the two big parties, the Whigs and the Tories. These parties alternately ruled as public opinion of the country changed from time to time.

What is a Party ?

The party system is a device for carrying on popular government by focussing public attention on the more important political issues of the day. In every community there must needs be diversity of views regarding public matters. Leading men become the exponents of opposed views enlisting gradually supporters to their programme of action. And this is how political parties are formed.

A Party & A Faction

A political party may be defined as a group of political thinkers who act in unison in political matters and constantly try to serve the country by

forcing ahead their political programme. In order to be true to the cause of the country and to be helpful to the public opinion in exercising its influence on the conduct of government, a party must be actuated by national considerations alone and set forth in their programme the real issues facing the country. If however a party is influenced by sectional interests to the exclusion of the larger and graver interests of the country as a whole, it is not a party but a mere faction.

Two & Multiple Parties

There may be in a country two or more parties participating in the affairs of government. In England until very recently two party system was the remarkable feature of its politics. In the continent however multiple party system is the rule. The two party system has the great merit of simplicity and forcefulness in the conduct of political affairs which the multiple party system utterly lacks. Moreover in a multiple party system, governments must naturally be coalitions and hence open to frequent changes. The instability of the French ministry is to no small extent due to the multiplicity of parties in France.

Merits and Demerits of Party System

The chief advantages of the party system can be briefly stated as follows :—

- (1) By far the most important function of

political parties is to educate, formulate and organise public opinion.

(2) Party system helps democratic governments to be run smoothly and efficiently.

(3) The open methods of the party system and the call for party loyalty have aroused many to civic enthusiasm.

The party system is not however without its dark side. The chief drawbacks of the party system are the following :—

(1) The political party often degenerates into a selfish faction giving rise to various evils.

(2) The party system often destroys originality and independence of judgment in members.

(3) By shutting out important persons from government it often leads to national calamity.

Party System in India

India still lags behind in respect of the growth of political parties. Till recently there was no scope for the people to conduct political affairs of the country and naturally the development of the party system was delayed. Happily however we have now in almost all provinces the Congress party on the one hand and the Moderates and the Constitutionalists on the other.

Calcutta University Questions

1. Indicate the advantages and the disadvantages of the party system. (C. U. 1926).
2. Distinguish between a faction and a political party. What are the merits and defects of the party system ? (C. U. 1932).
3. Describe the essential functions of political parties in a democracy. (C. U. 1935)

Suggested Questions

1. "Modern government is party government." Explain.
 2. Define a party and discuss the part it plays in educating public opinion.
 3. Discuss the case for and against a two party and a multiple party system.
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Chapter XVI

LOCAL SELF GOVERNMENT

What is Local Government ?

By local self-government is meant the management by the people of the locality of those matters of administration which are of purely local concern. Thus the maintenance of local roads, street lights, provision of drinking water, arrangements for health and sanitation are some of the functions that such local bodies generally discharge. In every modern state such local bodies have been functioning and experience has shown that they are best fitted for the purpose. In a large country, for example, authorities sitting at the centre can seldom appreciate and judge the nature of the local requirements and their proper remedy. Thus we have the parishes in Britain, the counties in America, the communes in France and District Boards and Union Boards in India.

Purpose behind the System

Local Government has been defined as the regulation and administration of the local affairs of small areas by the people inhabiting them through representative bodies composed mainly of elected members. The purpose behind such a system is firstly to encourage a spirit of self-help and self-independence, secondly to

increase the efficiency of administration by making the local people interested in their welfare and thirdly, to relieve the central government of some of its most difficult undertaking.

Scope of the Local Bodies

The scope of the functions of these bodies is strictly limited to such local necessities as "night vigilance, maintenance of ponds and ferries, streets and street-lights, provisions for drinking water and sanitation, primary schools, hospitals, play-grounds, libraries and the like. The functions would, of course, somewhat differ according as it is a rural or an urban area. This becomes more striking when the condition prevailing in a compact industrial area and in a widely scattered rural area are compared. As regards the scope enjoyed by the Indian local bodies, they will certainly suffer in comparison with those of the free nations of the West. In India although local bodies have been created they do not enjoy sufficient power either of finance or of administration with the effect that the enthusiasm of the people is repressed.

Value of Local Government

The chief advantages secured by the system are :—

1. Local self-government is chiefly valuable as it is the most appropriate agency for the training of the people in the art of self-rule. As Laski so beautifully

points out "Local Government is education in perhaps a higher degree than any other part of government."

2. Such institutions not only train the people in the principles of democracy but indirectly develop those habits in them which would be required for maintaining the same. As Bryce says "it is not only the best school for democracy but its best guarantee."

3. Such system secures in the third place greater efficiency and quickness for the administrative department in so far as the inhabitants may at least be assumed to be in daily contact with one another to realise clearly the nature of their common interests.

Calcutta University Questions

1. Estimate the value of local institutions as agencies for the training of the people in the art of self-government. Illustrate your answer from the working of those institutions in Bengal. (C. U. 1934).

2. "The first lessons of self-government must be learnt in local institutions." Explain and illustrate this statement with reference to the working of local bodies in Bengal. (C. U. 1936).

Suggested Questions

1. Indicate broadly the nature and the purpose of local self-governing institutions.

2. Describe the part that self-government plays in modern democracies.

Chapter XVII

LEAGUE OF NATIONS

The Genesis

The Industrial Revolution of the 18th century by turning the world to be interdependent had already made out a case for world co-operation which came to the fore-front when in 1914 a devastating world war dragged in almost all the principal nations of the world. Then it was that the idea of a League was suggested by President Woodrow Wilson of America and the war-weary world jumped at it as the panacea to all the evils from which it was suffering. The main purpose for which however the League was designed was to put an end to war as a settlement of international disputes. The League would work for disarmament among nations, preach international harmony and co-operation and settle disputes through arbitration by an impartial tribunal. It was further provided that any recalcitrant member, who would either violate the accepted principles of the League or would not submit to its decisions would be boycotted by the other members in every way possible.

The Covenant

The covenant of the League is its constitution which contains the main provisions for international peace and co-operation.

Membership

Originally the number of members was forty two which rose later on to fifty six. Only full-fledged states can become members. But queer as it might seem India and the British Dominions were allowed to be founder members although they are not strictly speaking independent states. The United States of America and Russia were the two conspicuous states that stood out of the League.

Organisation

The principal organs of the League are the Assembly the Council, the Secretariat and the Permanent Court.

The Assembly is the "parliament" of the nations. Every member has a seat in the Assembly. It is the general directing body of the league. It controls the finance, swears in new members and can take action in almost all matters affecting the League. The assembly meets once a year.

The Council is a much smaller body. The Council consists of five permanent members representing Great Britain, France, Germany, Italy and Japan and nine non-permanent members elected by the Assembly. The Council meets as many times as occasions demand but must meet at least four times a year.

The Secretariat of the league has been described as the International Civil Service. The permanent secretariat consists of 600 league officers recruited

from over forty countries of the world. It is superintended by the Secretariat-General.

The Permanent Court of justice is the International bench for arbitration of disputes. It has on its panel fifteen judges representing the different systems of law. This court is situated at the Hague in Holland.

The headquarters of the league is at Geneva in Switzerland, the freest nation of the world.

League's Achievements

The achievements of the League fall far short of the expectations. It no doubt averted war on many minor occasions but has been quite ineffective before the powerful nations. It could not carry on effective disarmament among its members who still suspect one another. The League's achievements are more solid when we turn from the political activities of the League to its economic and social activities. Here the League has been the source of many good things and has actually helped the world a lot through intellectual co-operation and such humanitarian agencies as the International Labour Organisation. Its fight against such fatal diseases as tuberculosis, malaria, and its campaign against the opium traffic, white slave traffic and immoral traffic in women must be regarded as something to its credit.

League's Failure

But to all intents and purposes the League has failed as it has failed to discharge its primary function

for which it was set up namely outlawry of war. Two great wars one in Abyssinia and another in China have discredited it. It has been found that recalcitrant members when powerful can ignore the League at their pleasure. This is really alarming and must shake the League to its very foundations. As a matter of fact the recent happenings have revealed that the League has no power of sanction behind its injunctions so that it can bind down the member that chooses to violate its order. So long as no satisfactory solution either in the form of an international police force or in some other powerful authority to this is found out, the League will continue to be an ineffective ideal.

The Abiding Interest

But the abiding interest for which we cannot allow the League to be abolished is that it is a move in the right direction. "It furnishes a forum for the open discussion of international problems and offers a welcome substitute for methods of secret diplomacy. The League has at least supplied the world with a structure on which to build ; it is by the development of an international outlook and through the extension of the civic sense to world affairs that spirit can be infused into it."

Calcutta University Question

1. Describe briefly the constitution and the functions of the League of Nations (C. U. 1936).

Suggested Questions

1. Discuss broadly the object for which the League was established.
 2. Discuss the achievements and the failures of the League.
 3. Broadly explain the constitution and working of the League of Nations.
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Chapter XVIII

ELECTION

In modern democracies, governments are conducted by the representatives of the people. This implies that ~~the~~ representatives are to be chosen. The process of choosing the representatives is known as election. The act of making the choice is called voting.

Problem of Suffrage

The very first problem in connection with this choice of representative is whether the suffrage or the electoral function would be conferred upon all adults in the country or only upon the selected few. The advocates of adult suffrage would say that every grown up man and woman should have this right provided they are not otherwise disqualified. The common form of disqualifications are in the cases of minority, insanity, idiocy, bankruptcy, criminal prosecution etc. Sex which was in the past regarded as a ground for exclusion has been in modern times discarded and females in many forward states share equal suffrage with males. Property qualification still lingers in many states as the minimum to be possessed by a voter but it is losing its hold. The time is fast coming when in every country universal adult

suffrage will be the rule. But in order that suffrage may be intelligently exercised, people must be literates. Hence the test of literacy seems for all times to remain the minimum qualification for the voter. As J. S. Mill pointed out long ago. "Universal teaching must precede universal enfranchisement."

So far as India is concerned it is difficult to perceive how adult suffrage can be immediately achieved. Only 8 p. c. of the population of British India are literate and the women are shut out from outside life by purdah. Hence the immediate necessity is the spread of universal free compulsory education in the country.

Direct v. Indirect Election

The election of representatives may be either direct or indirect. In the former case all the voters directly choose the governors while in the other system the primary voters nominate a few selected persons who on their behalf finally choose the representatives. The chief motive of indirect election is to mitigate the evils of popular ignorance but such a system often produces greater evils than it seeks to remedy.

Joins v. Seperate Electorate

Another difficult problem relating to representation is the choice between the joint and the separate electorate. In every community there must be minorities and they demand that they must have separate electoral field otherwise in a joint electoral system

they will not be represented at all. The communal representation as it exists in India i. e. separate representatives of Muhamedans and Europeans from amongst them is an illustration in point.

The Joint electorate is to be supported as it recognises political equality and helps the growth of common citizenship.

Separate electorates should not be allowed as they are undoubted obstacles to democracy and nationalism

Representation of Minorities

This leads us to the more important issue, the representation of minorities. Mill advocated that the legislature should be the country in miniature and as such every minority however insignificant must be proportionately represented, otherwise it would be a false show of democracy. Various devices were suggested from time to time and tried but without satisfactory success until the method known as Proportional Representation successfully adopted in various countries in modern times.

But with regard to the protection of minorities we must say with the League of Nations that all they can demand is equality before law and in political rights, protection of their religion, language and culture etc. The way in which it is being solved in India is unwarranted and is fraught with serious political consequences.

Calcutta University Questions

1. What do you consider to be the true basis of franchise ? (C. U. 1930).

2. Is education the sole qualification for citizenship or other qualifications are necessary ? If so what are they ? (C. U. 1930)

Write a short essay on manhood suffrage as applicable to India. (C. U. 1933)

4. "Universal teaching must precede universal enfranchisement." Discuss (C. U. 1935)

5. Discuss the merits and defects of Direct and Indirect Elections respectively. (C. U. 1936)

Suggested Questions

1. What do you understand by universal adult suffrage ? How is it possible to be achieved ?

2. What is communal representation ? What are its defects ?

3. Discuss the problem of minority representation and the representation of special interests.

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ECONOMICS

BOOK I

INTRODUCTION

Chapter I

Subject-matter of Economics

Economics is a social science. It studies those social activities of man which are economic by nature. By economic activities we mean such activities on the part of man by means of which he secures the material requisites of his life. Every man has a number of wants beginning with the most elementary ones of food, clothing and shelter, and ending with the innumerable amenities of the modern social life. These wants call for efforts on the part of man for their satisfaction. Economics deals with the causes, the nature and the results of such efforts. And in so far as these efforts appear in the business world, where men are struggling daily to eke out their livelihood, Professor Marshall defines Economics as the study of man in the ordinary business of life. Again since it is wealth that gives command over material possessions of all kinds whereby a man can meet his varied necessities of life, Economics may be said to be the science that treats of the

production, the consumption and the distribution of wealth. But if it studies wealth, it does so as a means to human welfare and not as an end in itself. The practical bearing of the science is obvious enough. Since the bread problem, in the most comprehensive sense of the term, is a vital matter with every person, the science has the most universal appeal. It is of great significance too, because a man cannot ever aspire after a higher life devoted to religion and philosophy until and unless he can satisfactorily solve ~~the~~ various physical wants that surround him. It is of far-reaching importance in so far as the science attempts to better human life by making available to all the greatest possible comfort with the least possible sacrifice.

Scope of Economics

Sciences may be broadly classified into the physical or natural sciences on the one hand and the social sciences on the other. The former treat of Nature and the different groups of phenomena in nature while the latter deal with man and his social environment. Economics belongs to the latter category ; it is a social science. The most comprehensive social science is Sociology, which discusses the general principles of social relations. The scope of Economics is much restricted. It is concerned with only one aspect of social life namely the economic. Again all economic activities do not come within the purview of economic science. Firstly, economic activities which have no social bearing as the isolated economy of a man like

Robinson Crusoe in a desert island, are outside the scope of the science. Secondly, it takes no note of social activities as those of a mother or a housewife which are rendered in lieu of love and affection and not of money.

Definition of Economics

Adam Smith, the father of economic science, has defined the subject matter of Economics as something proposing to enrich both the people and the sovereign. This definition was amended by his disciple Say, a French economist, who writes, "I would rather say that the object of Political Economy is to make known the means by which wealth is produced, distributed and consumed." This led writers generally to define the science succinctly as "Economics is the science of wealth." But this account is not satisfactory. The first objection to such a definition is that it overemphasises wealth which is not the sole concern of the economist and it undermines the real issue, namely, man and his welfare. Economics studies man primarily and wealth only secondarily. It is not wealth but human material welfare to which it leads that Economics is concerned with. But this definition of the science not only errs by defect but it also errs by excess. The second objection is that it misleads people to form wrong notions about the science. A science that treats of wealth seldom commands respect. It is apt to be taken to be a vile science teaching selfishness and aggrandisement. Hence although it is wealth around which the economic

science clusters, the modern writers would have the science to mean the science of welfare of man and not the science of wealth merely.

Methods of Economics

Every science makes use of different methods of investigation and arrangement of data. The two principal methods known to the scientific workers, are the deductive and the inductive processes. In the deductive method we start from the principle and teach the facts ; in the inductive method we start from the facts and arrive at generalisations. Modern scientists agree that both the methods are sound and useful although according to circumstances they vary in their relative importance. In earlier times much energy was wasted by the economists on the question as to which of the two methods works out better results in economic investigation. The writings of the Classical Economists were essentially deductive in principle. As a reaction came the Historical School who applied the inductive method with equal zeal. The right view about methods seems to be what Marshall upholds in the following sentence "Both the deductive and the inductive methods are equally necessary for economic science just as the two legs of a person are both required for walking."

Utility of the study of Economics

Sciences are either lightbearing or fruitbearing. Thus the chief value of Philosophy as a science lies in the amount of knowledge and the breadth of vision

that a scientific study of the same bestows upon the student. It is essentially a lightbearing subject. The science of Medicine and Surgery is fundamentally different. It is studied with a view to the healing faculty that it imparts to the research worker. It is a practical science with practical significance. Unlike the science of Philosophy, the science of Medicine tries to justify itself by lessening human misery and improving human life. Economics as a science belongs to the latter group. It is essentially a fruitbearing science. Its chief aim is to better human lot by making available to all the material requisites of a decent life. As Marshall puts it "Economics is chiefly valuable neither as an intellectual gymnastic, nor even as a study for its own sake but as a handmaid of Ethics and a servant of practice." The close connection of the grave social problems with economic enquiry will not escape the notice of even the most casual observer. The brief lives of the multitudes of our fellow beings are shadowed with sorrow and strained with want. The misery and squalor that surround us, the injurious luxuries of some wealthy families, the terrible uncertainty awaiting the many families of the poor are evils too plain to be ignored. Poverty, disease and degradation move in a vicious circle. The economist seriously questions, Is poverty inevitable? Should there be a vast majority in every country living as mere hewers of wood and drawers of water? And with the solutions of such problems of farreaching importance he is primarily concerned.

Calcutta University Questions.

1. "Economics is the science of wealth." Do you agree with this definition? Give your reasons in full. (C. U. 1929.)
2. "Economics is the study of man in the ordinary business of life." Explain. (C. U. 1933.)
3. What is your idea of the scope of Economics? (C. U. 1933.)
4. Discuss the value and limitations of the chief methods of economic study. (C. U. 1929.)

Suggested Questions

1. "Economics is on the one side a study of wealth and on the other and more important side a part of the study of man." (Marshall). Explain.
 2. Explain fully the scope and subject-matter of economic science.
 3. State broadly the utility of the study of Economics.
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Chapter II

Laws of Economics

Economics is a science and has its laws. The aim of every science is to establish causal connections among the phenomena under investigation and these relations are known as laws of that science. The law of gravitation, Newton's law of motion are instances in point. In the case of the natural sciences, these laws happen to be very exact because of the uniformity of nature while in the case of the social sciences they are not so because of the changeful character of the human nature. Economic law is a kind of social law and as such very inexact. Prof. Marshall defines a social law as the statement of a social tendency i. e. a statement that a certain action is expected of a particular group of persons under certain social circumstances. Economic laws have been defined by him as social laws relating to branches of conduct in which the strength of the motives chiefly concerned can be measured by a money price. In other words economic laws are such social laws which can be measured in terms of money. The law of demand is such an economic law. It states that other things remaining the same, demand would not increase unless there is a fall in price. In other words, when there is a lowering of the price of a commodity, it is expected that there will be a tendency on the part of the members of that

community to increase their consumption of the article. But this tendency might not appear if other things change in the meantime. Suppose a better substitute for the commodity comes into vogue or suppose simultaneously with fall in price there is a general reduction in the purchasing power of the society. In that case the tendency will be checked or in other words the expected consequence will not follow. As man in the business life is influenced by a variety of factors which are themselves very uncertain economic generalisations cannot be compared with those of the exact physical sciences. A slight change in fashion will alter the result and working of the law of demand. Hence an economist at best can attempt a very qualified statement because he cannot foresee the changes that will intervene and the modifications that will ensue. In an exact science such as Astronomy there is no such difficulty. For example an astronomer can foretell a year in advance the exact point of time when a solar or a lunar eclipse will take place. He can make an unqualified statement because he can perfectly rely upon the courses of the planets which move in the very same directions that they have been pursuing from the beginning of creation. As such economic law will suffer when it is compared with an exact natural law. Hence Prof. Marshall points out "Economic law has to be compared with the law of tides rather than with the simple and exact law of gravitation." Although an economic law is not so exact as to stand comparison with such a

perfect specimen of a natural law as the law of gravitation, it is still a law and if at all to be compared it is to be compared with the law of tides. In the latter case, namely, meteorology, because of the changeful character of the winds and the waves, the laws are at best approximate expectations which are approached but never fully complied with. On account of these reasons economic laws are said to be essentially hypothetical in nature. In a sense every law is hypothetical or conditional. But economic law is hypothetical in a greater sense because the hypothesis in the case of economics is ever changeful. Universality and perpetuity can never be ascribed to economic science. As circumstances change, as economic environment is altered, laws have to be modified to be applicable to the changed circumstances. Hence the laws are relative to time and place.

Calcutta University Question

1. Define the term "Economic Laws." (C. U. 1933.)

Suggested Questions

1. "Economic law has to be compared with the law of tides rather than with the simple and exact law of gravitation." (Marshall) Explain fully.

2. What is a law? How far does the economic law differ from (a) natural law (b) moral law and (c) law as enforced by courts.

3. "Economic law is essentially hypothetical." Discuss.

Chapter III

Development of economic life

The present economic life of man is the product of a long process of historical evolution. A review of the different stages in the development of this economic life presents a very interesting study. The most common classification is to divide the progress into five stages which are the following :—

1. The Savage Stage—This is the very first stage when civilisation is just dawning upon mankind. Man lives by hunting games and procuring fruits and herbs growing wild. He has no knowledge of pasture, cultivation or manufacture. There is no private property, no exchange and little division of labour.

2. The Pastoral Stage—Man now learns to tame animals. People at this stage of economic evolution are nomadic. They move from place to place to get pasture for herds and flocks.

3. The Agricultural Stage—People now settle down, they cease to be nomadic. They have learnt agriculture i. e., the art of making nature produce food crops for man. Private property in land develops. There is some division of labour and some exchange of a direct kind known as barter.

4. The Handicraft Stage—This period is marked by the development of handmade manufactures, there is functional division of labour and developed exchange requiring some medium of exchange known as money.

5. The Industrial Stage—The replacement of human labour by machines and the introduction of the factory system brings about this last stage in the progress of economic life. There is complete division of labour and full-fledged money economy.

Penson has a different picture of the growth of the economic life through various stages. He studies the gradual development through the modification that is introduced in the chain connecting wants—efforts—satisfaction.

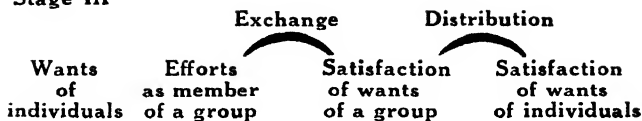
In the very first stage of economic progress when man is just emerging from savage existence, he has only the barest wants just required to keep body and soul together and these wants are satisfied easily by simple and direct efforts of man. To take for example his want for food is confined to fruits plucked from trees and games procured through hunt. There is no spicy dinner full of dishes of intricate varieties, the fruits and herbs are plucked and immediately taken. So with the games which are just roasted in fire and taken without minute preparation as we do now. Thus in the first stage the relation of want, effort and satisfaction is simple, direct and immediate.

Stage I. Wants—Efforts—Satisfaction

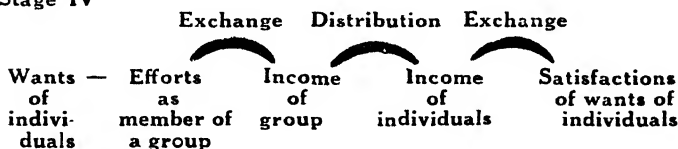
The second stage appears as man progresses a little further and the primitive stage is passed. The advantage of specialisation is realised and the community is divided into separate groups of workers. This crude form of division of labour brings in its train exchange as a necessary consequence. But this exchange is effected through barter, for money has not yet been invented. Here wants have increased in number and variety. Efforts to satisfy those wants are systematic and the direct satisfaction is replaced by indirect method of application of efforts leading to the satisfaction of wants.

Stage II. Wants—Efforts—Exchange—Satisfaction

The third stage is more complex. Wants, efforts and satisfaction all assume complex forms. At this stage not only has man found the necessity or advantage of producing for the wants of others but he has learnt to combine his work with that of others ; he has learnt the value of association and co-operation. Division of labour is carried still further. There is not only a broad classification on the basis of occupations but each work is split up into minor processes each complete in itself, thus allowing the introduction of machinery. The trade guilds or occupational groups predominate. In the first instance these groups exchange their products for money and then through distribution the individual members satisfy their individual wants. Barter is replaced by money.

Stage III

The introduction of money brings about the last stage in the industrial life of man. Sale and purchase come to be an important feature of the economic life. Everybody earns his income instead of goods as in previous stages and with this income he secures the various articles that satisfy him. The industrial effort of this stage becomes further complex by the emergence of the middlemen who form the necessary links in the long chain of producers of different stages in the production of an article, that separate the producer at one end and the ultimate consumer at the other.

Stage IV**Suggested Questions**

1. Describe fully how the economic life of man has developed from its primitive simplicity to its modern complexity.
2. Trace the various stages in the growth of the economic life of man.
3. "The progress of human society is from status to contract, from custom to competition" . Explain

Chapter IV

Wealth

Wealth is a very important concept in Economics. It is the centre around which the economic science clusters. The sense however in which the economist uses the term is quite different from the popular use of it. In the popular sense wealth means affluence or abundance of material possessions, it is the very opposite of poverty. We generally associate wealth with richness and luxury. So according to the popular notion the rich man has wealth but the poor man has not. But this is not so according to the scientific use of the term as the economist understands it. In the latter sense both the rich man as well as the poor man possess wealth, the only difference being that the rich man has much of it while the poor man has only a little. Thus while in the popular sense the distinction between the rich and the poor is one of kind, in the economic sense it is simply one of degree.

In order that an article may be wealth two conditions must be satisfied :—

(1) Firstly, it must have the power to satisfy human want, and

(2) Secondly, it must be the result of human effort.

In other words, utility and scarcity are the two ear-marks of an economic good or wealth and unless

and until both these characteristics are present in the article it will not be reckoned as wealth. Hence, although water and air are highly useful, they are not generally wealth because they are free gifts of nature and to be had in unlimited amounts. But if for some reason or other, water or air becomes scarce and has to be produced through effort, they will be wealth. Thus in a thickly populated town, good drinking water has to be procured with effort and such water which is bought and sold is certainly wealth. Similarly, the air of the health-resorts like Darjeeling or Puri is wealth to the changers in so far as to get that health-giving air, people spend lots of money in travelling to those places. Again simply because some effort has been spent or expense incurred the object will not be wealth if it is not useful. Thus a house in an out of the way place is not wealth although it is the result of human effort. Similarly, piano is not wealth to the savage who does not know its use although much effort is required in making it. But that piano again is wealth to a civilised man who knows how to use the same. Thus we see that what is wealth to one person may not be wealth to another and what is wealth at one place may not be wealth at another. Thus ice is wealth in summer but not in winter. Sand is wealth to the builder but not to the dweller of the desert. So Penson points out "wealth cannot be regarded as something by itself but only in its relation to man and his wants."

After discussing the connotation of the term wealth

let us turn to its denotation, in other words, the various articles that come within the category of wealth. According to the old writers like Adam Smith only tangible, vendible commodities are to be known as wealth. Thus according to this old view, teachers, clergymen, judges, policemen, musicians and all such persons who render service rather than material goods are not to be regarded as producers of wealth. But such a view is untenable. In so far as these services are not free and are bought and sold like other goods, these are also wealth and to mark these off from other wealth would be to draw a distinction without any difference. The modern view of wealth is that it includes in its denotation both material goods as well as services which are useful to men and not gifts of nature.

Suggested Questions

1. Define wealth and fully explain its implications.
 2. "Wealth cannot be regarded as something by itself but only in its relation to man and his wants" (Penson). Explain.
 3. Is there any non-material wealth ?
 4. Discuss whether the following goods are wealth or not :—
 - (a) skill of a musician (b) natural harbour
 - (c) goodwill of a business (d) public park
 - (e) shares of a company
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BOOK II

CONSUMPTION

Chapter I

By consumption we mean the satisfaction of human wants. To consume wealth is to utilise it for the satisfaction of our wants, to apply it to the uses and purposes for which it was produced.

Just as a man can produce only utility so a man can consume only utility. In other words production consists in the creation of additional utility while consumption means the destruction of that utility. Thus consumption is negative production. For example, a man is said to consume a chair when he uses it till in time the utility which was created in that piece of wood by the carpenter is destroyed and it is no more in a form to be usable to man.

Consumption as a department of economics is a study of the nature and the satisfaction of human wants. Until recently however economists did not attach proper importance to consumption. They overemphasised production but failed to recognise that logically economics should begin with the study of consumption. Since it is the presence of human wants that actuates man to all activity, consumption is the end and production the means. In other words

want is the mainspring of economic effort and had there been no want, there is serious doubt if this science would have grown at all. But although in the early stages of the life of man, it is human wants that gave rise to human activity, each new step forward demonstrates the reverse order namely new activities giving rise to new wants. In modern times it seems that production is the end of which consumption is only the means. Thus we find that the relationship between consumption and production is not one of cause and effect but of interdependence.

Suggested Questions

1. What do you mean by consumption? Is it negative production?
 2. Is production the means and consumption the end or consumption the means and production the end?
 3. "Speaking broadly, therefore, although it is man's wants in the earliest stages that give rise to his activities, yet afterwards each new step upwards is to be regarded as the development of new activities giving rise to new wants." Explain
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Chapter II

Human wants

The wants of man are the underlying motive of all economic activity and consequently the starting point of economic science. Every want felt by a living being gives rise to a desire and consequently an effort on the part of man to obtain possession of necessary things that would remove those wants. By consumption in Economics we mean the application of effort to the satisfaction of want through the acquisition of wealth.

Characteristics of wants

The wants of man possess several characteristics which may be broadly indicated thus :—

(1) Human wants are unlimited in number. This feature distinguishes man from inferior animals and is the mainspring of civilisation. To civilise a people is to increase its wants. The wants of humanity are at first like those of a child. At birth the child needs nothing but a little milk and a worm covering ; but soon he requires more varied food, more complicated garments and toys, each year gives rise to new needs and new desires. The more he learns and sees, the more numerous and intense are these desires. We are to-day conscious of a thousand

wants that were unknown to our ancestors and it is equally certain that our grandchildren will feel wants that we know not of.

(2) Wants are limited in intensity. In other words although there is no end to the ever-increasing number of wants, each particular want is satiable i. e. a certain amount of a particular kind of thing will satisfy the demand for it completely. It is not possible to go on indefinitely taking added doses of the very same thing without a marked diminution in the pleasure derived from its use. Thus a man needs only a certain amount of bread to satisfy his hunger and a certain amount of water to slake his thirst.' We may say that a want decreases in intensity up to the point of satiety. Then that particular want is extinguished and the pleasure derived from its use is replaced by disgust or suffering.

(3) Wants are competitive. There is a constant conflict between the various wants of man. Each human want is eager to be satisfied before others. Every moment thousands of wants are cropping up in our mind. They are peeping like so many children clamouring for satisfaction, We are sometimes simply bewildered by the alternative wants demanding our attention. Again as old wants are being satisfied, new wants immediately take their place. To take an example, when there is a rupee in the pocket of a boy he now thinks to purchase sweets, the next moment he decides to buy a cloth and again he changes his

mind to go for a cinema show with it. There are the alternative satisfactions that his rupee can give him and he weighs these alternatives well in his mind and has to decide which one he will have to the exclusion of the rest.

(4) Wants are complementary. That is to say human wants never go singly but in groups. The want of a carriage immediately brings with it the complementary wants for a horse and a coachman. Similarly the want for a pen to write with means a simultaneous want for ink and paper. So also the want of food in the civilised society to-day is associated with the want of table, chair, table-cloth, napkin, glassware, knives and forks. Thus human wants seldom go alone, they come together.

Classification of wants

It is usual to classify human wants into :—(a) Necessaries (b) Comforts and (c) Luxuries. The distinction between these three classes of wealth is not very easy to draw. By some, specially the ancients, the distinction was made on an ethical basis ; necessities consisted of things which were conducive to a life of plainliving and high thinking while luxuries were those articles the consumption of which would degrade a man. In modern times, the distinction is generally made on the ground of productive consumption,

! By necessities we mean articles which are absolutely essential for sustaining life. In other words, the

minimum required for sustenance including bare wants of food, clothing and shelter in their irreducible, elementary forms are denoted by the term necessities. While comforts refer to better clothes, better food and better shelter meant for fuller life, for more wholesome existence and fit for a decent standard of living. Luxuries include the superfluities of life and the refinements of the rich order of society. They are such expensive habits and amusements which are found among the very rich people.

Necessaries have been subdivided into (1) Necessaries for life. (2) Necessaries for efficiency and (3) Conventional necessities. The first group comprises of articles like ordinary dishes of food, a hut for a shelter and a change of clothes which are the bare minimum of necessities required to keep body and soul together. Necessaries for efficiency would include more wholesome food, books for culture and innocent pastimes for recreation. Conventional necessities are such commodities which are so habitually consumed that people would buy them even before the necessities of life. Homely illustrations of conventional necessities are tea, tobacco, necktie, Sunday costume,

The above classification of wants however is open to the very grave objection that there is no hard and fast line of distinction between necessities and luxuries. After all, these are relative terms. For example what are considered as luxuries by the people of India are regarded as bare necessities by the people,

of England or America. In other words, the definition of necessities will depend to a large extent on what we are prepared to regard as a reasonable standard of living. But the standard of living varies greatly from people to people and within the same people from one stratum of society to another. It is as such very difficult to say whether the consumption of a thing means satisfying a necessity or a mere luxury.

Problem of luxury. Is luxury justifiable ?

In its ordinary use, luxury means the satisfaction of a superfluous want. Hence the first question regarding luxury is its social justification. If luxury be regarded as unproductive consumption, is it to be banned by the economist ? Those who decry luxury argue as follows ;—

(1) Luxury is waste and every form of waste is bad because it creates wilful want. Waste not, want not. So avoid luxury.

(2) Luxury is harmful to the consumer because the amount of benefit derived from the expenditure is much less in comparison to the amount of sacrifice involved.

(3) Luxury diverts the labour and capital of the society from the production of socially beneficial goods to those socially harmful and undesirable.

Those who seem to justify luxury argue as follows:—

(1) Expenditure on luxuries gives employment to many and is thus a boon to society.

(2) The demand for articles of taste calls for refinement, specialisation and skill on the part of workers.

(3) Luxury expenditure transfers wealth from the rich to the poor and thus betters distribution.

It is not easy to decide which side to take. On the whole we may say that luxury does more harm than good. It is true that it gives employment but would not there have been equal employment if the sum were spent on more wholesome goods? If it creates taste, it also fosters bad taste as addiction to drink. As for the third argument there are several better methods for improving distribution.

It must not be supposed, however, that the deplorable effects of luxury which waste labour and wealth are imputable to the rich alone. There are luxuries among the poor. The sums that the poor spend almost daily for drink amount to much more than the value of the pearl which Cleopatra threw into her winecup. The queen moreover was not poisoned by it.

Spending and saving

From the discussion of luxuries we pass on to the discussion of spending and saving. Spending and saving are the alternative uses to which income may be put. By spending we mean the application of income to the purchase of goods for immediate consumption. Saving refers to the application of the same to

the purchase of goods for further production. In the one case, the money is spent in consumption, in the other it is invested in production. An illustration would make the difference clear. When a person has one hundred rupees as income, he can do either of two things. He can buy articles of different descriptions to satisfy his various wants or can abstain from present consumption and spend his income in buying tools, implements and machines that would yield him an income in future. In the first case he has spent and in the second he has saved. It would appear then that spending and saving are both essential features of our every day economic life. For it is unusual that a person would spend the whole of his income and save nothing or that he will save everything and spend nothing. A portion of his income and often a major portion he has to spend to purchase articles that would satisfy his requirements and after his pressing necessities have been met, he would think of saving his surplus income. Thus spending and saving exist side by side and wisdom consists in striking a happy balance between the two. If foolish and reckless spending is bad, so is miserliness that defeats its own purpose. Capital is increased by parsimony and diminished by prodigality. But too much parsimony would result in overcapitalisation in industry which is as bad as shortage of capital. The prudent man thinks of the future as well as the present and he uses his income most economically when he so distributes his income between spending and saving, between present and future.

enjoyment as to secure the greatest aggregate amount of satisfaction. Under normal conditions, economic forces tend to adjust this balance between spending and saving. If people are saving too little, capital becomes scarce and the rate of interest rises. This increases the amount that can be enjoyed in the future and greater saving results. On the other hand, if people are saving too much and capital becomes superabundant, the rate of interest falls, there is less in the way of future enjoyment to attract and saving diminishes.

Calcutta University Questions

1. "From the social point of view saving is always better than spending," Discuss. (C. U. 1934.)
2. "The best way to benefit a community is to spend one's income." Discuss. (C, U. 1934.)

Suggested Questions

1. Discuss fully the characteristics of human wants.
 2. What are the tests you would apply in classifying commodities into necessities, comforts and luxuries?
 3. What is Luxury? Is luxury justifiable?
 4. Is it of any consequence to society how a person spends his income? Should society interfere with individual liberty in spending?
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Chapter III

Utility

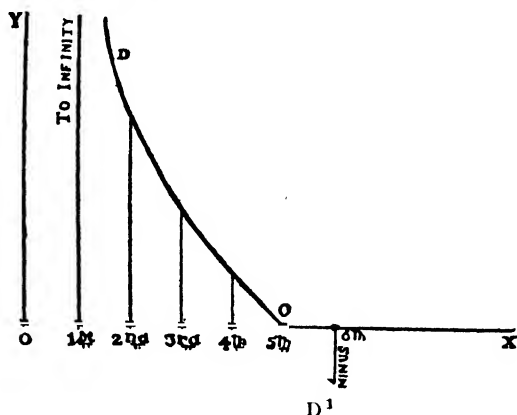
Like wealth, utility is another important conception in economic science. By utility in Economics we mean the power of satisfying a want. A thing can have no value unless it has utility. Nobody will desire an article unless he thinks that it will remove some want that he feels. The want need not be one which is universally regarded as legitimate or wise ; it will do if the consumer feels it and is ready to sacrifice something for its acquisition. The mere fact that a thing is rare—that it is a sort not possessed by others and as such distinguishes the owner—gives utility to things otherwise useless ; a notable example is an old postage stamp. Thus food materials are said to have utility just as rare jewel, tasteless ornaments, a stupid book printed four hundred years ago. The last to a collector of curios is as precious perhaps as a morsel of food to a starving man. It is immaterial whether the want is physical or mental, whether it is wise or foolish, whether the utility is due to scarcity, pure and simple, or due to its appeal to the sense of prestige. It will be effective nonetheless provided the want is there and the thing will be valuable if it has some utility to someone in some way. To say that utility gives value is not the same as to suggest that value is always proportional to utility. Iron is more useful than gold yet

gold commands a greater market value than iron. Such paradoxes can be multiplied. We find all around us that great utility often goes with low value. Articles most useful to the great majority of mankind like good drinking water, fresh morning breeze, rice, salt are generally very cheap, some being practically valueless while jewels, ornaments, rare collections command high market price although they are not absolutely essential for life.

Law of Diminishing Utility :—The utility of a thing is affected by its supply. The more we have of a thing, the less we want additional increments of it. Consider any familiar article of daily use. One suit is necessary, a second and a third add to comfort but as you have more, the satisfaction diminishes till it reaches a point when another suit would yield no satisfaction whatsoever. So is the case with houseroom. A pair of rooms is the minimum required for shelter. Three or four rooms mean more accommodation and more decent living but addition of rooms lessens the utility of the rooms. A dozen rooms for a limited family is not only superfluous but an encumbrance to the housewife who finds it a rather difficult task to keep them neat and tidy. This tendency on the part of utility to fall is known as the *Law or Principle of Diminishing Utility*. It is based on the second characteristic of human want, namely, satiability. Every particular want is limited. The desire to have more of the same article diminishes with additional doses till it is completely satisfied and after the point of satiety

the utility is nil. Professor Marshall defines the law thus :—"The additional benefit which a person derives from a given increase of his stock of a thing decreases with every increase in the stock that he already has." An illustration will make the principle clear. Suppose a hungry beggar, who is without food for days together, approaches you for food. You offer him dishes of rice and curry. The first plate that you give him saves him from starvation, the enjoyment derived from its consumption is immeasurable and the utility may be said to be infinite. The second plate is taken by him with perhaps equal eagerness for he is still very hungry. But this time the utility is certainly much less than the previous one and although the utility is still very high it is finite and definite. When the third plate is offered, the beggar takes it with relish but there is a marked diminution in his appetite as he is nearing satiety and the utility is still lower. The fourth dish when added makes him think twice before he accepts it, for it is doubtful whether the dish will be at all palatable after he has taken three plateful of victuals. Nevertheless, the fear of starvation has not left him and he at last decides not to refuse it. But this time he does not relish it and consequently the utility is very small. Just for the sake of fun suppose you bring him the fifth dish and insist that he should take it. He first refuses it with thanks but hard pressed by you, somehow swallows the contents but he is now pretty sick of rice and curry and cannot

take any further. The satiety point is reached and the utility from the fifth dish is nil or zero. If however the sixth dish is offered and the beggar is made to take it against his wish, he will certainly experience pain instead of pleasure for his stomach is about to burst. It causes him great discomfort and the utility is negative rather than positive. This may be graphically put as follows :—



In this graph, instalments of consumption are measured along OX axis and utilities derived from their consumption along OY axis. The curve DD^1 is the representative graph of law. It is usually a slowly descending curve showing the tendency of utility to drop if the consumption of the selfsame article is increased.

There are articles however to which the principle of Diminishing Utility does not apply as unfailingly

as the preceeding statement suggests. Though stimulants on the whole show unquestionably the tendency to lessening response, the conscious effect from first few doses does not always indicate it. The second or the third glass of liquor may be as much enjoyed as the first. Or to speak of higher things, the second or third reading of noble verses or hearing of beautiful music often gives greater pleasure than the first. Again there are many cases, where a preliminary stage of doubtful satisfaction is succeeded by habituation by unquestionably greater satisfaction as with tobacco or oysters. It is also said that money is a big exception to this law. Undoubtedly since there are so many ways in which money may be spent, it is not so easily satisfied as the want for water or food but nonetheless it is no exception truly speaking because the more money one has, the less grows one's desire for more of it. This is clearly shown by the fact that a beggar takes more care of his penny than a rich man. It is not worth while trying to refine the question whether in the cases just mentioned there is real or only apparent exceptions to the principle. The tendency shows itself so widely and with so few exceptions that there is no serious inaccuracy in speaking of it as universal.

Total and Marginal Utility

From the law of Diminishing Utility we are led to the conceptions of total and marginal utility. By total utility we mean the sum total of satisfaction

derived from the consumption of several doses of a thing taken in successive instalments while marginal utility is the satisfaction of that particular dose which is generally the last dose where the consumer stops making further addition because he is on the margin of doubt whether it would be at all worth while for him to make a further purchase at the ruling price. To take an example, suppose a person goes to market to purchase oranges for the season. The consumption of the first orange of the season would give him intense satisfaction and he would be perhaps willing to pay 10 pice for it rather than go without it. This clearly shows that the 1st orange has utility to him measured by 10 pice, the 2nd orange is equally delightful but this time suppose he would not pay more than 8 pice. Thus he is ready to pay 5 pice for the 3rd and 3 pice for the 4th. The 5th orange gives him satisfaction much less than the 4th. The intensity of his desire for oranges has fallen after he has taken four. Suppose the person would be just induced to pay 1 pice for the 5th. The 6th orange measures less satisfaction and he is not willing to pay even 1 pice for it. But suppose the market price is 1 pice for each. In that case, he would not buy the 6th orange but would stop with the 5th. In that case the 5th orange is his marginal dose and the utility of this dose is his marginal utility whose measure in this case is 1 pice. But the total utility derived from the consumption of these five oranges would be found

by adding up the separate utilities namely 10 pice and 8 pice and 5 pice and 3 pice and 1 pice = 27 pice worth of satisfaction.

Consumer's Surplus

The conceptions of total utility and marginal utility again lead to that of Consumer's Surplus. Since one price rules in the market and you pay 5 pice for the five oranges although these when consumed give you varying utilities whose sum total is 27 pice worth of satisfaction, you derive a surplus of satisfaction by purchasing for 5 pice articles worth some 27 pice to you. You have therefore derived a surplus satisfaction measured by 22 pice (27-5). Thus Consumer's Surplus is arrived at by deducting from the total utility, the total exchange value. The concept of Consumer's Surplus is of every day experience. We often get things very cheap—things even if dear would be bought by us. One anna newspaper, three pice post card, two anna bus ride are a few instances of a quite large circle of articles that illustrate this important economic principle. The morning newspapers contain informations for which everybody would be only too ready to pay a four-anna bit. It is regarded as a daily necessity by the modern citizen and the benefit that he derives from its perusal is hardly measured by one anna. So is the case with other things of the same category. In each case the consumer gains a substantial amount of

surplus satisfaction. Professor Marshall puts the principle as follows :—

“The benefit which a person gets from purchasing at a low price, things which he would rather pay a high price for than go without, is known as Consumer’s Surplus. The excess of the price which that person would be willing to pay over that which he actually does pay is the measure of this surplus satisfaction.”

Suggested Questions

1. State and explain the Law of Diminishing Utility.
 2. What is marginal utility ? Distinguish it from total utility.
 3. Clearly explain the concept of Consumer’s Surplus.
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BOOK III

Chapter I

PRODUCTION

Production is the application of human effort to the acquisition of wealth.

In popular usage production is taken to mean the creation of material things. But a little reflection will make it clear that man cannot create material things. His efforts and sacrifices result in changing the form or arrangement of matter to adapt it better for the satisfaction of want. All that he can do in the physical world is either to readjust matter so as to make it more useful as when he makes a log of wood into a table or to put it in the way of being made more useful by nature as when he puts seed where the forces of nature will make it burst out into life. It is sometimes said that traders do not produce ; that while the cabinet-maker produces furniture, the furniture dealer merely sells what is produced. There is no scientific foundation for this distinction. They both produce utilities and neither of them can do more. Production of wealth does not mean the creation of that which satisfies the want but the creation of additional capacity for satisfying want. Now this creation of utilities may be of three kinds :—(1) form (2) time and (3) place. When

the carpenter gives a particular shape to a piece of wood and thus renders it more useful to man, he gives form utility to that wood and his action is production. Further a thing may be made more useful simply by bringing it from the place where it is abundant to a place where it is rare. The coal-merchant who brings coal from Jharia to Calcutta is an instance in point. He creates place utility. Traders and merchants generally produce place utility. Lastly a thing may be plentiful in one season of the year whereas in another season it may not be found at all. If the commodity in question be preserved from one season to another or from one year to another, a higher utility is imparted to that commodity. This preservation is generally done by speculators and dealers in future who create time utility. Further, the term production must not be used in too narrow a sense. Firstly, it covers the whole effort from start to finish—from the growing of the raw material to the delivery to the consumer of the finished article. New utilities are added at every stage and at each stage there is production. Secondly it covers the services rendered by all who have in any way directly or indirectly contributed to the final result—the services not only of those whom we are accustomed to think as workers but also of persons who however indirectly somehow facilitate or aid the system of production.

4 Factors of production—Broadly speaking there are four factors of production namely land, labour,

capital and organisation. Some modern writers add a fifth factor called enterprise or risktaking. That which contributes to the production of wealth is known as a factor or agent of production.

Penson has classified these factors under two heads :—(A) Forms of human activity and (B) External aids :

A. Human activity

- (1) Labour
- (2) Organisation.
- (3) Enterprise.

B. External aids.

- (4) Gifts of nature.
- (5) Capital.

Relative Importance of the factors

The relative importance of the factors has not been the same throughout. It has varied with the different stages in the growth of the economic life of man. In the very preliminary stage, when man was but one step removed from the beasts, land or nature was of supreme importance because at that stage mankind lived either on fruits growing wild or the beasts of forest through hunt. These require little in the form of capital or organisation as we understand it to-day. Next to land, labour was required. This is not to suggest that capital and organisation were non-existent. In a sense they can be said to be present but their role was insignificant. In chasing wild animals often they combined together and this was a form of organization. Similarly, to pluck fruits from the top of the trees, they perhaps used some instruments

and to kill beasts they had to use some weapons whether lasso, sharpened stone or arrow and these instruments may be regarded as capital. As men progressed and nature was gradually brought under control, labour came to the forefront. With the introduction of machinery we find that capital assumes the most useful role in production and labour and land are thrown to the back-ground. With the development of the division of labour and the transition to large scale production, organisation comes into the limelight.

University Questions

1. Explain Production. 'What are the factors of production ? (C. U. 1927).
2. What are the leading factors of Production ? What are the chief principles determining the remuneration of each of these factors ? (C. U. 1932).

Suggested Questions

1. "Producers create utilities" Discuss.
 2. What do you precisely mean in Economics by Production and Consumption of wealth ?
 3. What are the four agents of Production ? Indicate their relative importance.
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Chapter II

Land as a factor of Production

Land in Economics does not mean the surface soil only but many more things in addition. It includes :—

- (1) the soil and all its properties.
- (2) the store of mineral wealth below the surface.
- (3) the seas, rivers, lakes and ponds on the surface.
- (4) the various forms of animal and vegetable life.
- (5) the climatic conditions pregnant with reproductive energy.
- (6) the natural forces, like light and heat, wind and water, electricity etc.

The term Land thus stands for all the free gifts of nature. The Economist's use of the term therefore is more comprehensive in its denotation.

Without land no form of production is possible. The right to use a certain area of the earth's surface, according to Prof. Marshall, is a preliminary condition for anything that man can do. To Nature's bounty man owes the very conditions of life, the objects on which his energy is spent, the forces which he sets in motion and the powers of hand and brain which give him mastery over them.

Speciality of Land

Land is characterised by certain peculiarities which are :—

(a) The supply of land is once for all fixed by nature. Man cannot increase or decrease the amount as in the case of capital.

(b) the quality of land varies remarkably.

(c) Land is subject to the law of Diminishing Return.

The productive efficiency of Land, according to Penson, depends upon the natural, social and economic conditions.

By natural conditions we mean the chemical and mechanical properties of the soil as well as the geographical and climatic conditions affecting it.

The social conditions refer to the number and distribution of the population, progress of agriculture in the country, nature of transport, facilities and the proximity to the market.

The economic conditions relate to the application of labour and capital such as manure, drainage, irrigation. The proper utilization of water power and electricity is an important economic factor that furthers production.

Extensive and Intensive Cultivation of Land

Land is said to be extensively cultivated when the labour and the capital at the disposal of the

agricultural community are spread over a big area, each plot whether more or less fertile getting its share of the investment. This is the case with new countries sparsely populated where there is virgin soil lying abundant. Intensive cultivation on the otherhand is mostly found in old countries where scarcely a new plot is available to be brought under cultivation. The labour and the capital are concentrated in those available plots instead of spreading the same over a wide area.

Law of Diminishing Return

By far the most striking feature about Land is that it is subject to the Law of Diminishing Returns or Increasing Cost. Prof. Marshall states the principle thus :—"An increase in the capital and labour applied in the cultivation of land causes, in general, a less than proportionate increase in the amount of produce raised" Additional expenditure on land already under cultivation will produce an increased yield, but the increased yield will not be proportionate to the increased expenditure. In other words, successive equal doses of capital and labour applied to land under cultivation after a certain point in the cultivation of land has been reached, produce a diminishing return per dose. To state the same principle differently, equal increments of product can be obtained from the same land by the same methods only at increasing cost. The principle holds true provided, firstly, that no improvement in agricultural

production takes place and secondly, that the previous application was sufficient to fully develop the properties of the soil. If, however, the former dose was either insufficient or not attended with scientific invention, the new application might produce more than proportionate yield. Nevertheless, the principle in spite of being temporarily checked, is sure to re-assert itself sooner or later. It is due to the principle of increasing cost that society does not raise all its food by the intensive cultivation of selected land of special fertility. The law operates because the chemical and physical properties of the soil are after all destructible and as one crop is harvested there is, other things remaining the same, less fertility in the land to yield further crop.

Rs. 20/-	worth of labour and capital produces	40 mds.	
			of rice.
Rs. 30/-	„ „ „	60..	
Rs. 40/-	„ „ „	70	„
Rs. 50/-	„ „ „	76	„
Rs. 60/-	„ „ „	80	„

Thus we see that the first addition often makes a proportional increase in the produce but soon the law comes into action and there is a sharp diminution in return.

The law, although specially applicable to land for cultivation, no less holds good for mines, fisheries and forests. It may even be said to be applicable

to industry after the point of maximum return has been passed.

Calcutta University Questions

1. Explain the Law of Diminishing Returns.
(C. U. 1929).

Suggested Questions

1. What do you mean by "Land" in Economics ?
What part does it play in production ?
 2. Describe clearly the terms Extensive and Intensive Cultivation of Land.
 3. In what respects is land fundamentally different from other factors of production ?
 4. State and illustrate the Law of Diminishing Returns.
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Chapter III

Labour

As with land, so with labour, the popular use of the term is no index to its scientific implication. Ordinarily labour stands for all kinds of mental and physical exertion. But in Economics only such exertion is regarded as true labour which has a direct reference to the acquisition of livelihood. Thus the labour of an amateur foot-ball player is not labour but that of the professional is certainly so. Similarly, although they undergo equal amount of physical exertion, the guide is a labourer truly so called but the pleasure-seeker who has appointed him is not, because to the former the chief motive of action is money while to the latter the principal motor of action is either love of adventure or distinction. So Jevons defines Labour "as any exertion of the body or mind undergone partly or wholly with a view to some good other than the pleasure derived directly from the work."

The term includes within its purview the effort not only of the manual workers but also of the brain-workers, the employers. I refer both to skilled and unskilled effort and it denotes both the effort of the independent producer as also that of the associated workers.

The part that labour plays in production is of high importance because the mere existence of natural resources is not sufficient for the satisfaction of human wants. Those materials have got to be procured and adapted to human use.

Productive and unproductive labour

Labour given to the production of material things alone was deemed productive by earlier economists. Thus Adam Smith and John Stuart Mill would regard the musician, the teacher, the judge, the clergyman, the servant etc. as unproductive labourer. There seems to be no scientific foundation for this view. Since the essence of production is that it leads to satisfaction or utility, it follows that any labour which yields utility of some kind is productive. The musician, whose performance gives us pleasure, does precisely the same sort of thing as the florist whose blossoms last for a few hours. The domestic servant contributes to our ease just as does the artisan who supplies furniture for daily use. No doubt there are gradations in the importance of the wants supplied by the different workers but they are not significant for our present purpose ; they give no ground for distinguishing between those producers who turn out material objects and those who do not. Thus the labour of the cultivator, the carpenter and the business man is as much productive as that of the judge, the teacher and the servant. Hence, according to the modern view almost all labour is productive. As Penson

points out "what is of real importance to us today is not whether the effort is productive or unproductive but whether it is more or less productive i. e. whether the effort expended result in the production of a large or a small amount of wealth."

The question which next arises is: Is there then no such thing as unproductive labour? Penson answers, that when labour fails altogether of its object it is unproductive, as for example, labour contained in digging a well which is left unfinished. Taussig says that all kinds of predatory labour are unproductive; for example, the activities of thieves, swindler, paupers, never-do-wells who do not produce wealth themselves but live as parasites by depriving others of their wealth.

Efficiency of labour

The productive efficiency of labour depends partly on the labourer and partly on the employer. In other words, although it is primarily the power and the will to work on the part of the labourer that determines the efficiency of labour, it is nevertheless true that the employer through proper organisation can materially contribute to the productive efficiency of the labourer. Division of labour, large scale production and introduction of new machineries are some of the ways by which the modern organiser gives facility to the labourer to produce more wealth. But before the labourer can take

advantage of the environment created by the employer he must have the physical capacity to work and the mental willingness to labour. His power to work depends upon four factors, namely physical fitness, technical fitness, moral fitness, and intellectual fitness. While his will to work depends upon freedom, hopefulness and change which characterise the work and the nearness and the directness of the reward that he gets from such work.

Division of Labour

Nothing increases the productive efficiency of labour so much as the proper division of labour. By division of labour is meant the distribution of the work of the community into separate functions and assigning each of these separated tasks to one group of persons who become specialists in that direction. The underlying principle in division of labour is that instead of performing himself all the functions that would meet his requirements, every person directs his energy along that line wherein he excels thus gaining in productive efficiency. By far the most simple case of division of labour is found in the village economy where there is the occupational distribution of work as we have blacksmiths, goldsmiths, carpenters, barbers, cobblers, etc. The caste system in the Hindu Society is another homely illustration of this Division of Labour. But if Division of Labour means on the one hand separation and specialisation, it on the other hand implies combination and co-operation of labour.

When each worker specialises in one work, he has of necessity to get the other things that he requires by exchange from other workers. Thus exchange arises as a necessary sequence of Division of Labour and the specialisation leads to interdependence of the various groups of workers.

Broadly speaking, division of labour assumes three forms namely simple, complex, and geographical.

In the simple form each task thus separated is complete by itself and one person or group of persons has the satisfaction of seeing the work through from beginning to end. Thus in the village system where there is this simple form a weaver of cloth is at the same time the spinner, the fuller, the dyer and the cotton-grower, although much time was wasted in his moving from one process to another and since one person can seldom excel in all directions there was also some loss due to inefficiency.

In the complex form, just to give greater facility through more elaborate specialisation one stage of production is further split up into many incomplete processes. In a modern shoe factory, a shoe is not made by a single cobbler but is the joint product of some hundred workers each adding his quota at some stage or other. Adam Smith's example of the making of pin in a modern factory in this connection has become classical. "A primitive workman scarcely acquainted with modern implements could with utmost industry make one pin in a day and

certainly could not make twenty. But in the way, in which this business is now carried on, not only the whole work is a peculiar trade but it is divided into a number of branches of which the greater part are likewise, peculiar trades. One man draws out the wire, another straightens it, a third cuts it a fourth points it a fifth grinds it, at the top for receiving the head ; to make the head require too in them distinct operations, to put it on is a peculiar business, to whiten the pin is another, it is even a trade by itself to put them into paper and the important business of making a pin is in this manner divided into about 18 distinct operations."

Another phase of the division of labour is the geographical or territorial division of labour. With the rapid development of the transport system through the establishment of railways, opening of canals and invention of steamship, one particular locality or country began to specialise in the production of one commodity in which it possessed some natural advantage or some advantage of aptitude and skill. Thus England specialises in the production of finished commodities, while she imports foodstuffs from other countries. This territorial division brings about gains in two ways. Firstly they arise from the adoption of different localities to the production of specific commodities. Secondly they arise from the increased efficiency which is the result of exclusive application to one work.

Merits and defects of Division of Labour

The benefits conferred by Division of Labour can be conveniently studied under two heads viz. (A) Effect on production as whole (B) Effect on condition of the worker.

(A) Production as a whole is benefitted due to the following reasons :—

(1) As Division of Labour makes for specialisation, there is efficiency gained through the economy in skill.

(2) It saves time because the same man is not required to pass on from one work to another.

(3) It makes possible the use of machinery.

(4) It facilitates large scale production.

(5) Thus indirectly division of labour makes for cheapness, benefitting the consuming public.

(B) The beneficial effects upon the workers are the following :—

(1) It has increased the efficiency of labour and thereby their income.

(2) It has lessened human suffering by helping labour with machines and the forces of nature.

(3) It has rendered labour more mobile by breaking down barriers between trades.

Division of Labour however is not an unmixed blessing. It has drawbacks of its own. Some glaring defects may be mentioned as follows :—

(1) Less skill is required to make the part than the whole, the more so when there is machine to

help man, thus depriving the artistic sense in the worker. This also increases monotony ; for there is some pleasure in moving from one stage to another and also in completely doing an article. It further narrows the outlook.

(2) Modern division of labour brings in its train the factory system, slum life and the estrangement between the employer and the employed.

Theory of Population by Malthus—

We have been studying so far the factors that determine the quality of labour, let us now pass on to discuss the influences that affect the quantity of labour. The total quantity of population in a country depends upon birth, and migration of which the first is the most important. With regard to the natural increase of population through birth we have the celebrated theory propounded by Malthus known as the Malthusian doctrine of population. The theory can be briefly stated thus. Population multiplies faster than the growth in the means of subsistence. Due to human fecundity, population has a tendency to double itself in every twenty-five years but the food supply can never double every twenty-five years because land is subject to the Law of Diminishing Returns. The inevitable conclusion follows that unless artificial means to restrict population are applied, there is every likelihood of population outstripping the limit of subsistence.

When such is the case, there will be set into motion natural forces like wars, floods, famines, epidemics etc. to cut down surplus population. Since in such an event there will be pain and misery all round and as prevention is always better than cure, Malthus advocates the adoption of preventive checks like celibacy, late marriage and moral restraint after marriage to keep down the population so that the positive checks provided by nature may not come into operation.

This theory of Malthus held the field for a pretty long time. Then came the Industrial Revolution and its wonderful consequences. England multiplied its number of population several times but at the same time grew immensely richer than before. This immediately discredited Malthus and he was called a false prophet. Various criticisms were levelled against the doctrine propounded by Malthus. It was pointed out by Prof. Cannan that Malthus was wrong in equating population to food supply only, the real relation being between population and the wealth of the nation as a whole. Moreover Malthus could not perceive the fact that the diminishing return in agriculture can be more than offset by increasing return in manufacture. Prof. Seligman says that the problem of population is not one of mere size but of efficient production and equitable distribution. But in spite of these criticisms, Malthusian doctrine in its essence remains till today true and unassailable.

Calcutta University Questions

1. Distinguish between productive and unproductive labour. (C. U. 1931).
2. What are the causes of the efficiency of labour ? (C. U. 1926)
3. What are the various factors on which the efficiency of labour depends ? (C. U. 1936)
4. "What is of real importance to us today is not whether the labour is productive or unproductive but whether it is more or less productive" Explain (C. U. 1934)
5. Explain the advantages of Division of Labour. (C. U. 1926)
6. Mention the advantages of the different forms of Division of Labour. (C. U. 1933)

Suggested Questions

1. Define "Labour." Are all labour productive ?
 2. Discuss the theory that governs the supply of labour.
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Chapter IV

Capital

(Capital and Wealth)

Capital is that part of wealth which is invested to yield an income. Thus all capital is wealth but all wealth is not capital. Wealth is consumable good but when some portion is not immediately consumed but set apart to be utilised in production, that part is capital and not wealth. To take an example, a person earns Rs. 500/- a month. If he spends the whole of it in buying goods of all varieties and invests no part of it in production, the whole of it is to be regarded as wealth to him but if on the other hand he sets apart Rs 100/- not to be spent but to be saved and invested, it is capital to him. As Marshall points out. "We should use the term wealth in preference to capital, when our attention is directed to the relations in which the stock of useful things stands to general well-being to methods of consumption and to pleasures of possession while we should use the term capital in preference to wealth when our attention is confined to those attributes of productiveness and prospectiveness which attach to all the stored-up fruits of human effort."

Characteristics of Capital.

Productiveness and prospectiveness are the two essential attributes of capital. Demand for capital is due

to its productiveness *i. e.*, due to the fact that when saddled with capital, labour becomes many times more productive. The supply of capital is due to prospectiveness *i. e.*, people save because capital yields interest and swells the income of the person who can forego present pleasure of consumption.

Creation of Capital.

The creation of capital is an arduous process. In order to create capital, one must first of all save and not spend. But saving should not take the form of hoarding. In that case such saving will not lead to capital. Thus not only there must be saving but also investment. Yet it is not capital for who knows that such investment is for productive purpose? It is quite likely that the money saved and invested, is borrowed by a rich spendthrift who uses that amount not for production but for his domestic expenses. Hence not only the money must not be spent and hoarded but it must not as well be invested in unproductive loan. It must reach the real businessman who will turn it into capital goods and utilise it in production.

The same thing may be both wealth and capital at different times. Thus the motor car of a doctor is certainly capital to him when with it he visits patients in the morning, but it is wealth in the afternoon when he goes out for a pleasure drive. Such cases are not however very usual. Capital goods are generally in a

form which does not admit of a double use. Thus a machine is capital par excellence. It can only be used in production. Similarly, the raw materials of a factory are by its very nature and constitution capital and cannot be once used in production and again in consumption as with the motor car in the above instance.

Classification of Capital

Capital may be regarded from the standpoint of the society and from that of the individual. On this basis capital is classified into social and private. Social capital is divided into (1) consumption capital and (2) auxiliary capital. The former consists of those goods on which workers live while producing e. g. houses, clothes, food, etc. The latter consists of all goods which help labour in production such as tools, plants, machineries, raw materials. etc. Social capital is also classified into fixed and circulating capital. Fixed capital consists of those goods which exist in a durable shape and the return to which is spread over a period e. g. machines. Circulating capital on the other hand is exhausted by a single use e. g. raw materials, money.

Functions of Capital

The chief functions of capital are the following :—

(1) Use of capital increases the quantity of product and cheapens it. In the form of tools and machineries capital adds to the efficiency of labour thus increasing the productivity several times,

(2) Capital not only gives tools to labourers, it gives subsistence to them during the process of production. The modern capitalistic production is a long-drawn-out process. The labourer cannot possibly wait till the finished product is marketed and sold to the ultimate consumer. He is remunerated in the form of advances from the capitalist who finances modern business.

(3) Use of capital means continuity in production.

Growth of Capital

The growth of capital in a country depends upon two factors, viz. the will to save and the power to save.

The will to save or the subjective conditions of saving, are :—

(a) By far the most outstanding motive of saving is family affection. A man can have no stronger stimulus to energy and enterprise than the hope of rising in life and leaving his family to start from a higher round of the social ladder than that on which he began.

(b) Security is another necessary subjective condition of saving. Unless and until there is sufficient sense of security that the amount saved would not pass into the hands of the ruffians there would not be a clear incentive to saving.

(c) Foresight in the sense of provision against old ages and bad times is another potential condition belonging to this group.

As for the objective conditions on which depend the power to save we must mention :—

(a) Surplus is the first objective condition. Unless there is a sufficient margin of income over expenditure no saving can possibly take place.

(b) Rate of interest is as much a necessary condition as surplus. Most of the accumulation takes place because of this inducement or reward. Saving means foregoing present consumption and this postponement is painful and is only undertaken because of the presence of interest which swells the income.

(c) Opportunity for safe investment in banks and joint stock companies is a no less important factor that determines the growth of capital. If there is opening for earning big dividend saving is facilitated. Use of money and the development of the money market have gone a great way to increase the power to save.

Two other problems in connection with capital are (1) Is money capital and (2) Is land capital.

As regards the first one, strictly speaking money is not capital but money only gives command over capital. But in the loose business terminology money in the form of business capital is generally regarded

as circulating capital. But it must be noted that money is circulating capital only to the individual but not so to the society. From the standpoint of society, money is fixed capital.

As regards the second issue, land is regarded as a separate factor of production and is thus usually distinguished from capital, moreover since the former, is a free gift of nature and absolutely fixed in quantity, it has many points of difference when compared with capital. As Marshall points out although land may be allowed to be regarded as capital from the individual point of view it is not social capital. Capital from the social point of view includes all things other than land which yield income including things in public ownership.

Calcutta University Questions

1. How does capital originate? Discuss the part played by capital in production.

(C. U. 1926)

2. What are the main causes which influence the accumulation of wealth in a country?

(C. U. 1928)

3. Distinguish between Fixed and Circulating Capital.

(C. U. 1931)

4. Define Capital and discuss its functions in production.

(C. U. 1931)

5. Indicate the part played by Capital in production.

(C. U. 1931)

Suggested Questions

1. Define Capital and distinguish it from wealth.

2. "Productiveness and the prospectiveness are the two characteristics of Capital." Explain.

3. Enumerate the subjective and the objective conditions of saving.

4. Discuss if money and land may be regarded as Capital.

Chapter V

Organisation :

Side by side with the growth of specialisation in the process of production, there has grown up a class of men whose business it is to link these specialists together and to make a working organisation of them. These organisers of modern industry correspond roughly with the class we ordinarily call businessmen and the part they play in modern business can hardly be over-exaggerated. The employed members of the specialised groups like the landowners, labourers, capitalists are concerned with their particular tasks but the business organiser is concerned with the productive effort as a whole. Like a general he marshals the forces under his command. It is the organisers who decide what shall be the exact division of labour, what shall be the scale of production and in what forms of tools and machines, the capital of society shall be applied to industry.

The primary functions of an organiser are :—

- (1) He is responsible for the starting of the business and he plans the whole business from start to finish.

(2) He decides the details of the business like the quality and quantity of the product, the scale of production, the division of labour etc.

(3) He co-ordinates the different functions in right proportions, for on the proper co-ordination depends the success or failure of business.

(4) Lastly he has the distributive function. He distributes the money income to the different factors.

Large scale business organisation :

The nature of modern business organisation is generally on a large scale. This transition from production on a small scale to that on a large scale is by far the most striking feature of modern industry. And this change is not due to mere accident but has sufficient reason behind it. It is due to the fact that large scale business offers from the view point of production certain incontestable advantages. By grouping the various factors of production in one place, it offers possibilities of economy and more efficient administration. The chief advantages accruing from large-scale business organisation are the following :—

(1) Economy of management (2) Economy of material (3) Economy in sale and purchase (4) Economy of machinery (5) Economy of by-products (6) Opportunity in experiment and research and (7) Benefits of Increasing Returns.

Large scale business pays because there are so many economies gained when the scale of production is increased. Often the same set of management can run a big venture with almost equal efficiency. Machinery is more utilised in a big firm where more work is done and the machines are kept engaged. Materials are more properly handled. In sale and purchase the large scale producer has obvious advantage over his small rivals through greater bargaining strength. By-products of the business are not wasted in a big firm but some means is found out for their disposal. A small producer cannot afford the luxury of advertisement, experiment or research, but a big producer can profitably spend towards these expenses. Last but not least of the advantages that increased scale brings about is the cheapening in costs through the economy of increasing returns. Just as agriculture conforms to the law of diminishing returns or increasing costs, so manufacture shows the opposite tendency of increasing returns or decreasing costs.

But although large scale business has come to be the order of the day, the small producer still lingers in many fields of production. As a matter of fact large scale operations have not made equal headway everywhere. There are certain spheres of activity where the economics of small production are decisive. As Gide points out "Large-scale production is far advanced in transportation, trifle less in manufactures, still less in commercial enterprises while in agriculture

it is scarcely perceptible." The reasons for this survival on the part of the small producers in the face of keen competition from giant businesses are to be sought mainly in three directions :—

(1) The first limitation to large scale is provided by the Law of Diminishing Returns. Large scale business is generally successful in enterprises which show the phenomenon of diminishing cost price or Increasing Returns. But there are fields of production like agriculture, mining, fishing which are subject to the law of Diminishing Returns and as such are not profitable when increased to unwieldy proportions.

(2) The second limit to large operations is set by the extent of the market. 'There are articles whose market is so limited and irregular that large scale business in such production is very risky. This is the case with all fashionable goods. Tailoring and printing business are also of the same nature in so far as they cannot be carried on a big scale as they have got to cater to the personal inclinations of the customers.

(3) Lastly the infirmity of human nature is a great obstacle to big enterprises. In every business a point is reached after which it becomes well nigh impossible for the man in charge to manage the whole show efficiently. In other words man's capacity to manage is limited and enlargement of the scale cannot be carried on indefinitely without some diminution in efficiency of management.

Localisation of Industry

Localisation of industry is a problem of business organisation and a feature of it. The localisation means the tendency of industries to congregate in one particular locality which offers comparative advantages for that industry. This tendency in industry has been greatly accentuated by the development of communication facilities in the nineteenth century. For localisation of industry cannot be given full effect to without world interdependence through the extension of markets for goods. The growth of Jute mill industry on both the sides of the Hooghly river and the Cotton mill industry in Bombay and Ahmedabad are Indian illustrations of the tendency.

Three factors generally influence localisation of industry which are the physical, economic and political causes. Physical causes refer to such factors as accessibility to raw materials, congenial climatic conditions etc. Economic causes include such things as accessibility to markets and availability of cheap and adequate labour supply. Political causes denote influences like the patronage of courts and high society which historical records tell, have been in the past important factors leading to this tendency in industry.

Quite different from the former causes of localisation is the momentum of early start. Many firms grow up near one another in one neighbourhood simply because quite accidentally one or two firms had pre-

viciously selected that to be the site for their industrial undertakings.

Whatever the influences however which bring an industry to a district, the chief advantages of localised industry are all due to the opportunities for greater specialisation which concentration affords. Where many firms of the same trade are grouped together, the worker has a better market for his specialised skill, the employer finds less difficulty in getting specialised labour and the industry can command a large number of special services known as subsidiary industries that crop up all round it.

Monopoly organisation

The modern economic system is essentially competitive. Ordinarily competition works for the better but when it takes the form of a cut-throat one or mere racing of one person or firm against another, it becomes more harmful than good. Under such circumstances it often turns out that competitive firms engage in destructive struggle digging their own graves. Driven mad through fierce competition they often sell articles below the bare cost of production. As a reaction against such a tendency, we have combinations or monopolies in trade. They mean virtual negation of competition. The trusts of America and the kartels of Germany exemplify such monopolies. In India the government has monopoly in postal services and the Electric Supply Corporation has monopoly in the City of Calcutta.

Voluntary combinations of businesses may be either vertical or horizontal. In a vertical combine, all the different stages in the production of an article are brought under a single management while in the horizontal, different firms competing on the same level are amalgamated in one big combine. The Tata Iron and Steel Works is a fine illustration of the former while the Standard Oil Company of U. S. A. is a good example of the latter. The aim in all such combinations is to avoid the wastes of competition and to attain high proficiency through unified control. But the danger lies in the fact that the monopoly may charge unnecessarily high prices from the consumers and thus be acting contrary to the interests of the public.

Types of industrial organisation

From the standpoint of ownership business undertakings can be broadly divided into three types viz. single-man system, partnership and joint stock company. The first represents the primitive type of business when the modern complex division of labour has not developed. A man with small capital of his own would often start under his own roof industries on a very small scale.

The second type replaced the first when specialisation was coming into vogue and business required more capital than one could supply, being generally on a larger scale than formerly. This was known as partnership business where more than one person

would put in their resources and launch a business. The chief legal characteristic of such an association is the joint and unlimited liability of the members. A partnership is efficient, virile and elastic but its drawback is its limited means and its undivided responsibility.

The joint stock company which is gradually displacing the partnership is, on the other hand, an offspring of the industrial revolution. As compared with partnership it is a big enterprise with huge capital and a very large paraphernalia. Unlike in a partnership, the members of a joint stock are very many in number and generally unknown to one another. Unlike again the partnership, joint stock has a different set of people to manage the business. There are the stock holders and the shareholders, who are the real owners. Then there are the bond holders and preference shareholders who simply subscribe capital but assume no risk. There are the managing directors who are the organisers and then managers and skilled and unskilled mechanics who are salaried labourers pure and simple. The chief ear mark of joint stock company is its limited liability and transferability of shares. Limited liability by reducing risks has facilitated investment on a grand scale unthinkable in the days of partnership business. The case of transfer again has contributed no less to the wide sale of shares of public companies. These were the two great draw backs of the previous system and in doing away with these the joint stock business

has gained in strength and vitality. But after all it has difficulties of its own. Modern business depend more upon the personnel of the directorate but the loss is incurred by a different set of persons. Moreover ease of transfer and liability have rendered more speculation possible in jointstock than in partnership undertakings,

Calcutta University Questions

1. What are the advantages and disadvantages of large scale production ? (C. U. 1928).

2. Compare the relative advantages and disadvantages of large-scale and small-scale production. (C. U. 1930) (C. U. 1935)

3. Mention the advantages of large-scale production. Can a small producer hold his own in the presence of large-scale on manufactures in modern times ? (C. U. 1933).

Suggested Questions

1. What are the functions of the entrepreneur in modern industrial organisation ?

2. What are the various limits to the size of a business ?

3. What do you mean by localisation of industry ; What are the causes of such localisation ?

4. Describe the nature of monopoly organisation.

5. Briefly relate the chief types of business management.

6. Enumerate the constitution and merits of joint stock company as a form of business organisation.

Chapter VI

Enterprise

We have so far discussed the four factors of production namely land, labour, capital and organisation. But according to the modern economists there is a fifth factor which is specially prominent to-day and that is enterprise. Usually enterprise which is nothing but risk-taking is regarded as merely one of the many functions of the organiser of industry. But due to the very important fact that modern industry involves an amount of risk which was not so much the characteristic of business in the past, the risktakers may be separated from the organisers who do not bear the loss in case of business failure. The capitalistic system of production is carried on in anticipation of demand. This is inevitable if we are to avail ourselves of the economies of specialisation, since specialisation takes time. Thus there is a speculative element in modern industry due to the fact that it is carried on ahead of demand on an estimate of it and since working on estimate involves risk of loss when a wrong anticipation has been made, there comes the question who is to assume the risk ? The landowner gets his rent, the labourer his wage and the paid manager his salary much before the time when it becomes apparent that the business would not yield profit. It is the enterpriser that shoul-

der this grave responsibility. They gain when business thrives and lose when business fails. This feature of the business work is emphasised by the French term for the person who organises production, entrepreneur, which implies undertaking production for the market with its attendant risk. Since Joint Stock Business is the order of the day now we may see here that it is the shareholders who are to be regarded not simply as the capitalists but also the enterprisers for they ultimately assume the risk of the business. In the Joint Stock Company there are capitalists who are not enterprisers as the Bondholders. Similarly the Managing Directors are merely the organisers and the other employees simply labourers, it being no business of whom to shoulder any risk of the enterprise. Formerly of course when specialisation has not made any headway the private businessman was the capitalist, the labourer, the organiser and the enterpriser all in one but that order has changed never to return and hence there is every justification in treating enterprise as separate factor in production.

As regards the point, who renders this service in modern industry, there is apt to be some difficulty, as in different types of business different sets of person would be found to be performing this function. Thus :—

(1) In the private business as has just been shown the risks are taken by the self-same person who supplies capital, labour and organisation.

(2) In the Joint Stock Company the risks are assumed by the shareholders i. e. by the capitalists and not the business organisers.

(3) In a society of cooperative producers where the labourers are their own employers the risks are undertaken by the labouring class.

So we find that although enterprise is a separate function, there is more often than not, no separate functionary. As a matter of fact, enterprise is a service which may be rendered by any section of those taking part in the productive effort.

Calcutta University Question

1. What are functions of the entrepreneur in modern industrial organisation ?

(C. U. 1928, 1930).

Suggested Questions

1. Why is enterprise regarded as a separate function in production ? Who renders this service in modern industry.

2. "The organiser is not necessarily the enterpriser." Discuss.

3. "The entrepreneur is the captain of industry." Develop.

4. What do you mean by the term Enterprise ? Should it be regarded as a fifth factor of production ?

BOOK IV

EXCHANGE

Chapter I.

Demand and Supply

By demand in Economics, we do not mean the desire for a thing but only such desire as is effective through the offer of purchasing power. As such the notion of demand cannot exist apart from the price. When we talk about the demand for anything we mean the demand for it of people in general, the total demand. But this depends on the price asked, for we know very well that the willingness of people to buy a thing depends very much on what they have to pay for it ; more or less will be demanded according to the price. For example, if we say "There is a great demand for motor cars", we mean that at the prices asked for various types of cars, people are buying freely. For most commodities the demand varies with the price that is to say the demand increases as the price falls and diminishes as the price rises.

Just as there can be no demand apart from the price, so there can be no supply too apart from the price. When we say that the supply is great we mean to suggest that at the ruling price, producers are supplying goods in huge quantities. . In the case

of supply however the relation between supply and price is the vary opposite of that holding between demand and price. That is to say the law of supply is that when the price of an article goes up, the supply increases and when the price goes down, the supply diminishes.

Law of Demand

The relation between demand and price is generally expressed in the form of a law or universal statement usually known as the Law of Demand. Professor Marshall states the law thus:—"Other things remaining equal, the amount demanded increases with a fall in price and diminisher with a rise in price." The Law of Demand is based on the Law of Diminishing Utility which states that an additional dose means less utility to the possessor and as such price must fall before another instalment of the same thing will be purchased by the person concerned.

Elasticity of Demand

We have seen that the nature of demand is such that when price rises, demand falls and when price falls demand rises but this rise or fall in demand may be slow or rapid and accordingly the demand will be said to be more or less elastic. Demand for a thing is said to be highly elastic if a slight rise or fall in price will mean a great fall or rise in the demand while it will be highly inelastic if a heavy rise or fall in price is required to

affect the demand through a fall or rise. Demand for luxuries is generally elastic and that for necessities inelastic. But to be more scientific we should state that elasticity is a relative concept and it varies with the variation of income and habits of the people. As such Marshall points out that in order to study the elasticity of demand we would do well to take one section of the people at a time.

Theory of Value

Simply stated the theory of value is that the market price of an article is governed by two factors namely demand and supply. In other words the conditions of demand and the conditions of supply determine finally the price which would rule in a market.

Demand governs the market value of an article because nothing can have any price unless it is demanded. In other words utility is the first condition of price. But utility alone cannot impart value as is seen in the cases of air, water which possess great utility but little market value. The other condition is that there must be scarcity and as a result a supply price. In other words there must not only be utility but cost of production so that there may be some market price.

Thus both demand and supply or both utility and cost of production govern price. They are as it were the two blades of a pair of scissors equally indispensable.

ble in so far as with one blade we cannot effect a cutting. But just as in the case of the scissors, one blade may be held still and the cutting may be made by moving the other, so also in the case of market price, when supply is more or less fixed, price is determined more by the forthcoming demand or the utility, again when demand is fixed or stationary and the supply is adjustable, it is the cost of production to which the price tends to correspond. The shorter, the period under consideration, the greater is the influence of demand or utility on price and the longer the period, greater is the effect of cost of production or supply on price.

As Penson puts it there is on the one hand the sellers and on the other hand the buyers. The seller's minimum is determined by the cost of production below which he cannot sell while the buyer's maximum is fixed by the utility of the article above which the buyer will not pay. Between these two limits, the daily market price fluctuates and is near the one or the other according to the intensity of demand and that of supply. For if the buyers are more eager than the sellers, price will come more near the upper limit set by utility and if the sellers are more eager to dispose of their goods, price will come near the lower limit set by the cost of production. This is just like a badminton game where the shuttle cock is driven from this side to that and each side tries to get the better of the other. Similary the higgling and the bargaining of the market among the buyers and buyers

on the one hand and the sellers and sellers on the other finally bringing about the market price where there is equation of demand and supply.

But to say that demand and supply govern price is not strictly true for if demand determines price, price no less influences demand. If supply again goes to effect the market price, price in its turn governs supply. So to be scientifically precise we must say that, there is a mutual causality between demand, supply and price and that the conditions of demand and supply acting and interacting with the price go to determine the point of equilibrium when the amount demanded is equal to the amount supplied. And the nature of this equilibrium, is such that any departure from the equilibrium price would set into motion forces to re-establish the equilibrium.

These facts may be put out in a table thus :—

At the price	Sellers eager to sell	buyers eager to buy.
37 s.	1000 quarters	600 quarters
36 s.	700 ,,	700 ,,
35 s.	600 ,,	900 ,,

It is apparent from the above table that the equilibrium price will be 36 shilling and the equilibrium amount 700 quarters which is equally demanded and supplied at that price.

University Questions

1. How is Value determined ? (C. U. 1927].

2. "Value is determined by the general relations of demand and supply". (C. U. 1928).

3. What do you understand by elasticity of demand? Consider the elasticity of demand in the case of wheat, salt, watches and furniture. (C. U. 1931)

Suggested Questions

1. State and explain the Law of Demand.
 2. Define Demand and show that there can be no demand apart from the price.
 3. What is inelastic demand? Is the expression inelastic strictly logical?
 4. "Utility governs value" "Cost of production determines value". Which of these statements is correct and why?
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Chapter V

Instrument of Exchange

The common experience of us nowadays of exchange is the method of sale and purchase through the mechanism of a common medium which is known as money. Before this money economy stage exchange was effected through barter. By barter is meant the direct exchange of goods and services. When a European makes over his rifle, in exchange for a canoe of the Red Indian, it is something of a barter. But this direct exchange involved serious inconveniences which may be summarised as follows :—

1. A double coincidence of wants is a pre-requisite in every act of barter.
2. There was the obvious difficulty of accommodating units of sale to units of purchase.
3. There was no common denominator of value.

Such practical shortcomings as enumerated above discredited barter as a method of exchange and compelled mankind to find out a common medium of exchange. Anything which is in general demand and which is universally accepted in discharge of obligation can serviceably pass as money or the medium of exchange. It is rather interesting to find in the pages

of history of different lands and times, how very queer articles had passed in those primitive communities as money. To mention a few, we can state the names like cow, conch-shells, cowri, ploughshare, axe, bow and arrow, wheat barley, rice, etc. But these articles by and by gave place to gold and silver which came to be universally accepted as the medium of exchange all the world over for certain characteristics which are necessary in a good money commodity but which the previous substitutes so strikingly lacked. These features of a good medium of exchange can be broadly enumerated as follows :—(1) general acceptability for unless the chosen medium has universal utility it will not be readily accepted in discharge of obligation. (2) Stability in value i. e. the price of the article to serve as money must not be subject to easy fluctuations (3) Portability i. e. the object chosen for the medium must possess considerable value in a small bulk. (4) Homogeneity i. e. the value is in exact proportion to weight (5) Divisibility i. e. the commodity must have the quality of being turned into minor subdivisions without destroying the value altogether (6) Indestructibility i. e. durability and immunity from tarnishing and vanishing easily. (7) Cognisability—easily recognised to be the self-same metal thus avoiding counterfeiting and other difficulty.

Gold and silver satisfy the above conditions to a pre-eminent degree and were accordingly chosen to be universal money.

Functions of Money

The functions of money may be classified as follows :—

1. The essential functions—
 - (a) measurement of value
 - (b) facilitation of exchange
2. The derived functions—
 - (a) as a standard of deferred payments
 - (b) to transfer value
 - (c) to store value
3. The contingent functions—
 - (a) The distribution of social income
 - (b) The equalisation of marginal utility in expenditure
 - (c) To furnish the basis of the credit system
 - (d) To give a general form to capital.

Forms of Money :—

We have seen that money is simply the medium of exchange. But to be exact we must distinguish between the three senses in which money is used.

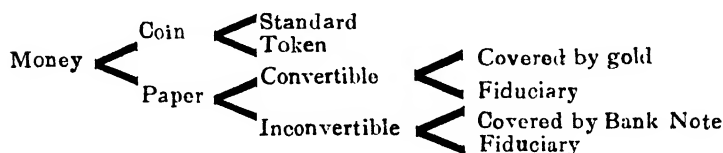
(1) Firstly, in its widest sense it means any media of exchange e. g. coin, govt. paper, bank-note, cheque and bill of exchange

(2) Secondly in its narrowest sense, it means only legal tender i. e. coin and govt. paper note.

(3) Thirdly, in its usual sense, it refers to the circulating media of exchange which are :—(a) legal tender (b) customarily taken as its equivalent.

Thus we see that there are various types of money that require explanation.

These various kinds of money can be broadly indicated thus ;—



Coin money and Paper money

Coin money is also known as metallic money or natural money. It is the money composed of the standard of value provided it has a commodity value approximately equal to its money value.

Paper money is also termed as credit money. It is money printed on paper and is essentially a promise. Government promissory note and Bank note are best illustrations of paper money.

Standard money and token money

Standard money is the unit of the monetary system of a country such that its value as metal is the same as its value as coin.

Token money on the other hand is the money whose face value is higher than its intrinsic value i. e.

whose legal value is greater than the worth of its metallic content.

Convertible and Inconvertible money

Paper money is broadly classified into convertible and inconvertible.

When against the issue of paper equal amount of coins or gold is kept in the reserve thus ensuring its redemption at any time, such paper money would be known as convertible. Bank of England notes are good examples of such convertible paper money.

When however there is no such guarantee of paying cash on the presentation of paper, it will be the case of inconvertible paper money. The Assignats and the Greenbacks are stock illustrations of inconvertible money.

Fiduciary money

The term Fiduciary means uncovered issue of paper money. The British currency notes are fully covered by reserves consisting partly of Bank of England notes and partly of government securities. The part not covered by Bank notes is called the fiduciary issue. The term fiduciary also applies to the $19\frac{3}{4}$ million of Bank of England notes which are not covered by any reserve of gold.

Legal Tender money

That form of money which a seller or a creditor is required by law to accept in payment of his debt is

called legal tender. In England sovereigns and Bank of England notes are unlimited legal tender but shillings are legal tender up to 40 pieces, pence up to one shilling and farthings up to six pence. Thus the latter are only limited legal tender.

Money standard

The standard of money of a country may be composed either of one metal or two metals and accordingly it will be known as monometallic or bi-metallic. Monometallism or single standard may be either a gold standard or a silver standard or a paper standard. Bimetallism or double standard is not found in modern times. It was given a trial by the Latin Union in the 19th century but was found unworkable. Gold monometallism is the order of the day, Gold standard again assumes more than one form—it may be a gold currency standard, a gold bullion standard or a gold exchange standard.

Appreciation and depreciation of money

By appreciation of money we mean a rise in the value of money and a fall in the general price-level because when there is appreciation, a unit of money will buy more articles in exchange than previously.

Depreciation of money means that prices have gone up and more units must be spent than previously to buy the same amount of other goods so when there is a general rise in the price-level we know that money has depreciated.

Coinage and its problems

The process of giving uniformity and thereby and at the same time recognisability to the money commodity constitutes coinage in the widest sense of the term. The requisites of good coinage are :—(1) accuracy in composition and weight (2) convenience of shape, size and weight (3) difficulty of counterfeiting.

Coinage is said to be Free when the government will coin without unreasonable delay any amount of the standard metal on the demand of anybody who brings in bullion for the purpose.

Coinage is said to be Limited if the government coins entirely on its own account and initiative.

Coinage is said to be Gratuitous when the government does the work of coining without making any charge whatsoever.

If however a fee is exacted equal to the expense incurred, the charge is called Brassage ; if in excess of the expense it is called Seigniorage. But the term seigniorage is often loosely used for both the charges and not infrequently describes simply the government profit on coinage whether the work is done for individuals or not.

Gresham's Law

By far the most important economic law relating to money is that bad money drives good money out of circulation. The law is named after Sir Thomas

Gresham who is said to have first enunciated this general principle.

There is an apparent paradox in the operation of Gresham's Law. Ordinarily people are led by self-interest to choose the commodity which is better and reject what is worse. In the case of money however they seem to keep the bad and reject the good. This apparent paradox is easily explained if we regard the owner of money as a seller rather than a buyer. He keeps the inferior money because as a unit of monetary transaction it has the same significance as the superior one; and he sells the good money in the market because there its value is greater than the inferior money.

There are three essential conditions for the operation of the law. They are :—

(a) Both forms of money must have equal legal tender value.

(b) There must not be popular dislike for the inferior metal.

(c) The two moneys taken together must be in excess of the country's total demand for currency.

The scope or extent of the operation of Gresham's Law may be enumerated broadly as follows :—

(1) With regard to coins of the same metal when some of them become of less bullion value on account of debasement, clipping etc.

(2) With regards to coins of two metals circulating side by side at a fixed legal ratio which is different from the market ratio.

(3) With regard to a currency composed partly of legal metallic money and partly of depreciated legal tender paper money.

The good money disappears from circulation in the following ways :—

(a) by sale by weight in the bullion market when the intrinsic value of the good money is greater.

(b) by hoarding in so far as people when they would lay by would do so with the full-bodied money.

(c) Lastly by payment abroad, for in the foreign country each unit of currency will be judged with reference to the intrinsic worth.

Value of money

The value of money varies inversely as the general level of prices. When the value of money rises, the price-level falls and when the value of money falls the price-level rises. So we can conveniently study the fluctuations in the value of money through price-changes and the study is necessary because price-change has far-reaching effects on the society. Broadly speaking during appreciation creditors gain and debtors lose while during depreciation debtors gain and creditors lose.

The changes in prices are measured through the method known as the Index Numbers. This is constructed in the following manner :—

In 1913	In 1919
Rice per md. Rs 6/- = 100	Rs 9/- = 150
Sugar „ „ Rs 10/- = 100	Rs 12/- = 120
Tea per lb Rs 1/- = 100	Rs 2/- = 200
$300 \div 3 = 100$	$470 \div 3 = 156\frac{2}{3}$

The above shows $56\frac{2}{3}$ p. c. rise in the prices in 1919 as compared with that of 1913. In other words we may say that value of money has fallen by $56\frac{2}{3}$ p. c. in 1919.

Quantity theory

The celebrated theory in connection with the value of money is known as the Quantity theory. Simply stated the theory is that the value of money varies inversely as the quantity in circulation. In other words when the amount of money is doubled the value is halved and vice versa. The Quantity Theory is nothing but an application of the general theory of value to the case of money as a commodity. Like every other article the money is also affected by its supply. But here the supply has the sole governing influence in so far as the demand for money is always constant. The theory however is true in a simple society where barter and credit have very little play and also when the velocity of circulation and the elasticity of demand for money remain constant.

University Questions

1. Describe the functions of money. Explain why the precious metals came to be chosen as money.

(C. U. 1928.)

2. What are the chief characteristics to be looked for in the commodity selected as money.

C. U. 1930)

3. What do you understand by "token money" and "standard money"? Illustrate your answer with reference to the Indian rupee.

(C. U. 1928)

4. "Bad money drives good money out of circulation." Name and explain the law. How does the good money disappear?

(C. U. 1933) (C. U. 1937)

5. Describe the principal functions of money.

(C. U. 1935).

6. Describe the disadvantages of the the issue of inconvertible paper money.

(C. U. 1936).

Suggested Questions

1. Distinguish standard money from money standard.

2. Define Legal Tender, Fiduciary Issue, Natural money, Brassage and Seigniorage.

3. What is appreciation and depreciation of money? How is that measured and what are their effects on society?

4. Explain the mechanism of the Index Numbers.

5. What do you know about the Quantity Theory of money?

BOOK IV

Chapter III

BANKING

A bank has been briefly defined as a manufacturer of credit and a machine of exchange. The first phase of exchange was barter. The next was money and the third and the last phase is credit economy brought about by the development of the banking institution. In the credit economy stage, exchange is carried on by means of promises to pay embodied in such instruments as bank-cheques and bank-notes. Of all the systems of economic organisation, that based on credit is the most recent. In fact its function is too complex to permit of its introduction among primitive people. As a means of facilitating production, credit arose only when it became possible to regard future wealth—which is the true object of credit—as commercially transferable from one person to another. This important stage was accomplished by the invention of negotiable paper—credit instruments that may be bought and sold in the market in much the same way that other goods are. The use of negotiable paper dates probably from the 13th century. The most important forms of negotiable credit instruments are bills of exchange and promissory notes.

In the case of a bill of exchange the creditor who has sold goods makes out a paper to this effect :—

To William Wilson (the debtor)
Chicago, Illionis,
New York, March, 1903.

At sight of this bill, pay to John Jones or order one hundred dollars for value received.

(Signed) Henry Brown (the creditor).

Brown will sell this bill to Jones, who if he chooses, transfer it to anyone else by endorsing it.

The following is the form of a promissory note, made out by a purchaser of goods or a borrower to to his creditor :—

Philadelphia, March 1, 1903.

Three months after date, I promise to pay to Henry White (the creditor) or order, the sum of two hundred dollars, with interest at 5 p. c. for value received.

(Signed) Philip Johnson (debtor)

Transferability by endorsement is a marvellous simplification but endorsement is nevertheless a formality and one of no mean importance since it involves the legal responsibility of all who would sign the paper. Greater simplicity and wider use result by suppressing the need for a signature and creating credit instruments that may be passed from hand to

hand as easily as money (e. g. notes payable to the bearer). An investigation made some year back by the Comptroller of the currency, concerning the use of various kinds of money and the use of cheques, drafts and other credit instruments in the national banks of the United States disclosed that less than 10 p. c. of the receipts were in cash.

Credit benefits society in the following way :—.

1. As a cheaper substitute for money, it is more economical.

2. It has greater elasticity than money and as such can quickly adapt itself to the changing volume of trade and business.

3. Credit puts the saving made in the community in the hands of those who are capable of utilising the same in production.

4. It maintains the continuity in production and the producer is allowed through discount to resume business as soon as he has disposed of his wares.

Bank is said to be essentially a dealer in credit because on analysis the banking practice is found to consist of borrowing and lending. Bankers are like other merchants. Ordinary merchants buy and sell goods ; bankers deal in capital represented either by credit instrument or by money. The former buy in order to sell and find their gain in buying as cheaply as possible and selling as dearly as possible. The latter borrow in order to lend and find their gain in

borrowing at as low a rate as possible and lending at as high a rate as possible. The sums which the banks borrow are usually obtained through deposits and their loans are usually made in the form of discounts ; they are therefore commonly called banks of deposit and discount.

There is however a third transaction quite different from the other two, although fundamentally it constitutes a species of loan. We refer to the issuing of notes. This operation is not essential to banks ; often it is an exceptional privileged function belonging to certain banks known as banks of issue.

There are many kinds of banks in modern times e. g. investment banks that are concerned with attracting the saving of the community, commercial banks engaged in helping trade and industry by advancing loan to the business men, exchange banks dealing in bills of exchange and through it facilitate the international and foreign trade and lastly we have the central banks which stand at the head of the money market of the country regulating the whole credit and currency system. Central banks usually have the following specialised functions :—

1. It is the banker's bank, for all banks are required by law to maintain an account with it.
2. It is the Government's bank with which the Government keeps its account.
3. It has the monopoly of note-issue denied to other ordinary banks.

4. In times of emergency it saves the other banks by its bold policy of free or unrestricted credit facility.

Suggested Question

1. What is credit? Differentiate between the different instruments of credit.
 2. "A banker is a dealer in credit." Explain.
 3. What are the chief functions of a Central bank?
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BOOK IV

Chapter IV

INTERNATIONAL TRADE

International trade means a trade between nations. This foreign trade is nothing but the result of the geographical division of labour. We have seen that exchange among individuals is an indispensable complement of the division of labour and that both together result in a prodigious increase of production. On a larger scale the same thing is true of nations as well as individuals. Therefore *prima facie* international exchange offers economic benefits similar to those resulting from personal and domestic exchange. In private and domestic trade, men exchange foods and services because of a relative superiority at different points. In international trade this relative superiority may be due either to better natural facilities and resources or to the peculiar aptitudes of the population of a nation. But by means of foreign trade the advantages of this superiority are enjoyed to some extent by all nations that exchange with one another.

Permanent international trade sets in when there is a difference in comparative costs. Immobility of labour and capital between the nations set up these differences maintained by national prejudices, reluctance to migration and love of one's own land etc.

That country gains more from foreign trade whose exports are more intensely demanded by the other country but the imports to which are not so urgently demanded.

The main advantages arising out of foreign trade may be summed up as follows :—

(1) It enables a country to enjoy goods which either it cannot produce at all or can only produce at a much greater cost.

(2) It enables a country to apply its labour and capital exclusively to that production where it has comparative advantages.

(3) International trade promotes intercourse and fosters fellowfeeling among nations.

The relative importance of foreign and domestic trade would vary according to circumstances. The domestic commerce of such nations as Belgium and Holland for instance is of less importance than their foreign trade. The Dutch have become wealthy by importing and exporting goods and their present principal sources of gain is the forward trade. Norway has but few commodities to sell and must buy a multitude of things abroad. Denmark, Switzerland and several other nations occupy a similar position economically. On the otherhand, large nations like Russia and the United States possessing immense territorial dominions but a sparse population can view with unconcern the growth of foreign trade, they form as it were economic worlds in themselves and would suffer

little from the interruption or annihilation of international trade.

Free trade and protection

Regarding the attitude towards foreign trade we have two schools of thought namely the free traders and the protectionists. The former base their theory on the advantages of division of labour and free exchange and would advocate the limitless expansion of commerce between nations unhampered by any trade restrictions like the import and export duties. The other school point out that free trade is good only when the two nations exchanging their goods are equal in their economic strength which seldom they are. As such there is always some scope for restriction to help a competitor who is backward.

The arguments that are generally advanced by the protectionists are :—

1. The infant industry argument. Because of the cut-throat competition in modern times, new industries are often nipped in the bud although they promise to stand in competition in future. These should be nurtured through temporary protection. Obviously only those industries which possess natural advantages should get the help of protection.

2. Diversification of industry argument. It is further asserted that protection would make for diversity and the population of the country would be evenly distributed among a number of callings.

3. More employment and more wage—the Home market argument says that protection would create more employment and due to the absence of competition would allow labourers to screw more wage.

Bill of exchange

In international trade, payments are made through the mechanism of the bill of exchange. The economic service that a bill of exchange renders can be illustrated by an example. Suppose A of England has sent goods worth Rs. 1000/- to B of India and C of India has sent goods worth Rs. 1000/- to D of England. Usually B the debtor of A would have sent so much money to A in England and again D of England the debtor of C would have sent money to C of India. But as such transfer entails risk and expense, this bill of exchange method has been devised. A the creditor in England draws a bill on B of India to pay money and he disposes it to D, the debtor in England who again sends it to C his creditor in India. Then C sells it to B, the debtor of A to realise the amount. Thus we find that a bill of exchange has paid two debts. In modern times banks buy and sell bills of exchange and they are the meeting places where both the debtors and the creditors of a country come to buy and sell orders upon foreigners.

Imports and Exports

It is said that the exports of a country pay for its imports. That they must correspond is obvious

because for any length of time a disparity between the two would mean that a country would become a debtor or a creditor permanently. Such state of affairs cannot go on indefinitely. But the above statement is true under two conditions. Firstly the terms exports and imports must not refer to visible items only but to invisible items in the balance of payments like interest charges, travel expenses, shipping fees etc as well. Secondly in the short period there is seldom any balance. The tendency asserted by the above statement holds good only in the long period when credit ceases to help the traders and there must be adequate cash payments by means of increased exports.

When the exports of a country are in excess of its imports, the country in question is said to have a favourable balance of trade while in the opposite case it is said to have an unfavourable balance of trade.

Suggested Questions

1. What is international trade ? What are the advantages of International Trade ?
2. What are the various arrangements for protection ? Which is better free trade or protection ?
3. Explain the mechanism of a bill of exchange and the economic service that it renders.

BOOK V

DISTRIBUTION

Chapter I

What is distribution ?

Distribution is that portion of economic enquiry which studies how the different factors contributing to the production of wealth are rewarded. Thus distribution is the study of the process through which the net product of industry is shared in the form of incomes by the agents of production. Corresponding to the four factors there will naturally be four shares in distribution and these are Rent, Interest, Wage and Profit. Modern production is joint production and as such exchange and distribution are inseparable adjuncts of the productive effort. In the form of incomes as named above the four factors namely Land, Capital, Labour and Organisation are respectively rewarded for their services. The three main problems relating to distribution are as follows :—

1. What is distributed ?
2. Among whom is it distributed ?
3. What is the principle of distribution ?

As regards the first question, we may say with Professor Marshall that it is the National Dividend

that is distributed. National dividend does not refer to the gross product of industry but the net income of the community after proper deductions have been made for depreciation and other charges on the fixed capital for wear and tear. Professor Marshall defines it as follows :—

“The capital and labour of a country acting upon its natural resources produce annually a net aggregate amount of goods and services which is known as the national income or the national dividend.” If we analyse the definition we find that Labour and Capital combined through of course, organisation when work upon the other remaining factor land, we get every year some net addition of wealth which is shared by the different factors in the form of incomes.

Thus the next question crops up, Who are the sharers or among whom is the national dividend distributed? The reply is short and simple. As there are four factors of production, so there must be correspondingly four shares in distribution. Land would get Rent, Capital Interest, Labour Wage and Organisation Profit.

The last problem relating to Distribution is what is the principle according to which the shares are made out? The share of each factor is determined in the same way as the principle of value. The demand and supply of each factor govern the return to which that factor is entitled. The incomes are nothing but the prices for the service of the factors and as such

the price of every other article is subject to two main forces namely demand and supply. If demand for Land be relatively greater than its supply its price i. e. Rent will be high. Similarly as compared with other factors if Land be relatively scarce it will be entitled to a higher return than any other factor of production.

Suggested Questions

1. What is distribution ? How is it effected ?
 2. What is National Dividend ? Who are the sharers and what are the shares ?
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Chapter II

Rent

Rent is the income that accrues to land as a factor of production. Economic rent or rent as used in economic science should be distinguished from contract rent or rent as used in our every day phraseology. Economic rent is the return for the use of the free gifts of nature while contract rent is the income from landed property which often includes interest on capital as well as economic rent proper. The payment which is made by the tenant to the landlord is generally contract rent although in the case of cultivation land it approximates very nearly economic rent in so far as unlike urban sites there is less opportunity for the landlord to invest capital.

Economic rent is essentially a differential return. The difference is due either to fertility or to situation. Any way some sites prove better than other sites from the point of view of production and producers producing on better sites find that the same amount produced cost, less. "The margin that is left over and above the cost, represents very nearly the rent to be borne by that land. Thus it has been said "that the price paid for the use of land tends to approximate to the producer's surplus i. e. to the economic rent." It is apparent that economic rent does not enter into price

in so far as it is the excess over the cost of production. The marginal cost of production which determines price has no element as rent in so far as it is the cost of production on the worst soil which does not experience any differential advantage.

Rent is due to the law of Diminishing Returns and but for it, the phenomenon would have been absent. Had Increasing Returns been the rule, only the best soils would only be cultivated and the question of differential advantage of better soils over worse soils would not arise at all. But as the concentration of labour and capital on the few best plots does not suffice for the total demand of the people, worse soils have to be cultivated and immediately the better soils derive some such thing as rent.

It was the economist David Ricardo who first scientifically stated the doctrine of Rent. He said that rent is paid for the use of the original and indestructible powers of the soil. According to him there is an order of fertility and an order of cultivation and during the first stages of the occupation of a new land there is no such thing as rent but with the march of time and the increase of population and the rise in the demand for land consequent thereupon the phenomenon of rent arises and becomes all the more pronounced with the progress of civilisation.

Although Ricardo was not correct in his statements, his theory in its essence is the foundation of the modern theory of rent.

Our conclusions regarding rent may now be summarised :—

1. Pure economic rent is the return to the free gifts of nature.
2. It is essentially a differential return.
3. It is the produce's surplus and is the result of price rather than its cause.
4. It is indissolubly connected with the law of Diminishing Returns.

University Questions

1. Define 'Economic rent' of land. (C. U. 1930)
2. "The price paid for the use of land tends to approximate to the producer's surplus i. e. to the economic rent". Explain this statement. (C. U. 1935)

Suggested Questions

1. What do you exactly mean by Rent in economic science? Distinguish this from Contract Rent and Scarcity Rent.
 2. Explain the Ricardian theory of Rent.
 3. Establish the relation between Rent and Price.
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Chapter III

Interest

Interest is the price paid for the use of Capital. The essential problem concerning interest can be stated in simple terms. Why should an individual who borrows from another a given quantity of money engage to return, after a fixed time has elapsed, not only what he has borrowed but something in addition? That the amount borrowed should be returned, seems sufficiently easy of explanation. But why can the lender get the premium as well? That premium is usually expressed in terms of a percentage paid each year. The borrower undertakes to pay back not only the principal but five per cent or thereabouts in addition for each year that elapses and a proportional percentage for each fraction of a year. To ascertain why this additional percentage is paid is to solve the problem of interest.

Two questions present themselves. On the one hand, why is the borrower, whom we may regard as the purchaser, willing to pay this excess; on the other hand why is the lender or seller, able to secure it for himself? In other words what are the conditions of demand, represented by the borrowers and what the conditions of supply represented by the sellers?

The demand for capital arises out of its productiveness and the supply is due to its prospectiveness. Capital is productive in the sense that labour applied in production becomes more efficient when aided with capital than without it. Supply a tool to a labourer and you will find that he can work more effectively than with his muscular strength pure and simple. Thus the borrower of capital finds that the loan of money when applied in production increases vastly the wealth turned out, so that the borrower can easily afford the payment of not only the principal but something more. Let us now turn to the side of supply and find out why the lender is justified in securing a premium. The lender does a service to the borrower for which he is entitled to some return. By abstaining from present consumption he denies himself immediate satisfaction and unless there is some inducement in the form of interest he would not forego present consumption and save to create capital for the society. Thus capital has both a demand price as well as a supply price. Its demand price is determined by the facilities for the investment of capital and its supply price by the minimum premium essential for the marginal saver to save. At any moment the current rate of interest is an equation between saving and investment i. e. between the supply and the demand for capital in a community.

In the past, writers like Aristotle and Plato denounced the taking of interest and detested the

lending and borrowing of money. In those days loans were generally loans for consumption and interest took the form of usury. But things are very different in modern times. Loans are nowadays utilized for productive purposes and the rate of interest is such as is justified by trade requirements. Usurious way of lending money is gradually making room for capitalistic production with proper credit facilities. As such the old opinion regarding lending money at interest has changed.

Suggested Questions

1. "Interest is the price of capital." Discuss.
 2. Show how interest is determined.
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Chapter IV

Wage

Wage is the price of labour and like interest and rent, it is similarly determined by the interaction of demand and supply. But wage differs from rent and interest in that there is hardly any general rate of wage. Wages vary considerably between occupations. The explanation for this variation is to be sought in more than one direction :—

(1) Agreeableness or disagreeableness of occupation. Of two jobs that which is more disagreeable generally commands the higher wage. Thus a mine labourer generally charges a higher pay than one working on the surface.

(2) Cheapness or expensiveness incidental to an occupation. A job which requires little in the form of training and there is not much preparatory expense in undertaking it, such job would give lower rate than another.

(3) Constancy or inconstancy of tenure. If an occupation is not secure and the employment is more or less discontinuous it will command lower wage.

(4) More or less responsibility. The more responsible the nature of the work, the more other things being equal will be the remuneration of such a job

(5) More or less efficiency. Of the two labourers one who is more efficient will usually earn a higher pay than one who is poorer in efficiency.

Wage may be conceived in two aspects namely Real wage and Nominal wage. Nominal wage refers to the income of the labourer in terms of money while real wage refers to income in terms of goods and services. With regard to inducement, it is worth noticing that what really attracts the supply of labour is not the money wage but what that money will buy. Nominal wage or money wage is the amount of money that is given in exchange for the services of labour, while real wage is the amount of food, clothing shelter and enjoyment that can be obtained by means of that money. Real wage then depends on the prices of things in general, on what is called the general level of prices. If prices rise but money wages remain the same, the inducement to labour is diminished. Here we find a difference between the employer's point of view and that of the employed. The employer measures wages by the money he has to pay out, the employed by the extent to which his wants can be satisfied.

It is pertinent in this connection to study the influence of trade union on wage. Originally it was thought especially by the labour leaders that the trade unions helped the workers to obtain higher wages. They neutralise the bargaining weakness of the wage earners and enable them to exact higher wages from

the employers. On the other hand it was argued by the classical economists that the trade unions could do nothing towards increasing the level of wages. If the wages are maintained at an artificially higher level, profits will shrink, savings will fall off and businessmen will be unwilling to continue in business any more. As a result the rate of wages will fall. As a matter of fact the direct and immediate influence of trade union on the general level of wages is not much. All that the trade unions can do is to help them indirectly as increasing their bargaining power, their efficiency and removing the obstacles to the immobility of labour through facilities for quick transmission with the help of labour exchanges.

A trade union however is able to exercise a greater influence on the rate of wages of a particular group of labourers by suitably restricting its supply. The conditions under which it will be able to do so are the following :

1. The demand for the article which that group helps to produce must be inelastic
2. The demand for that group must also be inelastic
3. The total wages of that group must form a very small part of the total costs:
4. Other factors must be squeezable.

University questions

1. Distinguish between nominal and real wages
(C. U. 1936) (C. U. 1938)

2. What is a Trade Union ? What are the effects of trade unions on wages ? (C. U. 1933)

Suggested questions

1. Account for the fact that wages vary widely between occupations.

2. Consider the question whether there can be a uniform rate of wage like that of rent and interest.

Chapter V

Profits

Profit as a share in distribution is characterised by a few distinctive features which are :—(a) It is the residual claimant. In other words, Profit arises if there is any excess after rent, interest and wages have been paid. Hence Rent, Interest and Wage must always be positive whereas Profit may be negative as well. (b) Secondly it is characterised by the fact that it is irregular and uncertain. Being the residual share it cannot be correctly ascertained beforehand. (c) Thirdly it is connected with the price-level. Profit is the result of price fluctuations. If prices rise, profits become higher and if prices fall, profits become low.

To take an illustration, in a joint stock company, the debenture holders and the preference shareholders whose incomes from such investments are guaranteed and who do not stand to lose in case the business is being run at a loss are not profit-owners but mere capitalists. There are however the ordinary shareholders who have no stipulated return assured to them and whose income rises or falls as the business makes a profit or a loss. Thus Profit is the reward for business enterprise or risktaking pure and simple.

Such pure profit must be distinguished from gross profit which often includes the interest on capital invested and personal salaries of the manager.

Pure or net profit according to Professor Carver may be analysed into different elements as follows :—

1. Superior knowledge and bargaining power which enable him to outbargain other factors.

2. Unscrupulousness of the enterpriser in deceiving the customers.

3. Methods of terrorism might be employed by the business man to screw a profit.

4. Insurance against risk paid to him by other factors.

5. Superior ability in risk-reduction.

The doctrine of profit is the most unsatisfactory part of the economic theory. It is an elusive and uncertain income which defies attempts at definition. Various theories have been advanced to explain the nature of profit of which the Rent Theory, the Risk Theory and the Dynamic theory are the most important. We shall discuss them very briefly.

Rent theory was advanced by Professor Walker. According to him Profit is the rent of ability. Like differences in the fertilities of different grades of land, the abilities of the different businessmen are also different. This theory may provide a measure for the differences of profits but it does not provide an explanation of the nature of profit. The most serious criticism against the theory is that it overlooks the important function of the entrepreneur as a risk-taker.

Risk theory is associated with the name of Hawley and Marshall. According to them the most essential function of the business man is risk bearing. Risks would not be borne if rewards in the form of profits be not there. No body can deny that profits arise because of the risk and uncertainty that are involved in business but it must be admitted at the same time that foreseen risks do not give rise to profit.

The Dynamic theory was started by Professor J. B. Clark. According to him profits rise solely due to dynamic changes. Profit is the difference between the selling price and cost. Hence profits tend to disappear in the static state because in such a state price would always be equal to the cost of production. Profits are thus essentially unstable and temporary. Although in the long run profits tend to disappear, in actual life changes are constantly occurring and the influence of competition is impeded by friction. Entrepreneurs therefore are always able to secure profits.

Suggested Questions

1. Define profit and bring out clearly the nature of profit.
 2. Discuss briefly the different theories of profit.
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BOOK VI

Chapter I

PUBLIC FINANCE

Public Finance as a science lies on the borderland between Economics and Politics. It studies the economic life of the state. It enquires as to how the state gets its income and how it spends it. Like the individual the state has its revenue and expenditure and often time has to borrow to meet a budget deficit. In the case of the individual, the income is more or less fixed and the expenditure is adjusted to that income, for the individual must cut his coat according to his cloth whereas in the case of the state it is the expenditure which determines the revenue. Both the income and the expenditure of the state depend on the nature and amount of state functions. The more the functions a state has to perform, the more must be its expenditure and correspondingly more in the nature of public revenues. The tendency in modern times is towards the expansion of state services in all directions and as such public finance as a science is coming more and more into limelight.

The traditional division of the subject is into the four following natural divisions :—

1. Public Revenue.
2. Public Expenditure.

3. Public Debt.

4. Financial Administration.

Public Revenue studies the various sources by means of which the state derives its income.

Public Expenditure deals with the disbursement of the public income in making provisions for goods and services for the citizens.

Public debt arises as a result of balancing between Public Revenue and Public Expenditure. Seldom it is a case that the budget is balanced. Either it will be a surplus or a deficit and the latter is more probable than the former.

Financial administration is as difficult as it is important. We cannot be too careful in scrutinising the way in which public money is spent. Every government devises ways and means to check the expenditure of public money. Usually there is a department, of Govt. under the Controller and Auditor General which has to see that no money is spent without the previous knowledge and sanction of the legislature. At the close of each financial year he submits a report stating how far the intentions of the public in framing the budget could be translated into practice.

Chapter II

Public Expenditure

Professor Wagner's Law of Increasing state activities is as nearly universally true in modern times as any inductive generalisation of this type can hope to be. Wagner maintains that there is a persistent tendency both towards an extensive and an intensive increase in the functions of the state. New functions are continually being undertaken and old functions are being performed more efficiently and more thoroughly.

Firstly this increase is accounted for by the fact that every modern state is socialistic in outlook.

Secondly the modern sense of altruism has led to an increase of state activities.

Thirdly public ownership and public control have been found to be economically beneficial in many spheres.

Lastly war has led to an immense increase in public expenditure.

Productive & unproductive

Public expenditure has been broadly classified into productive and unproductive.

Productive expenditure is such spending on the part of the state which either directly or indirectly increases the material or human resources of the nation.

Expenditure which leads to no economic improvement is unproductive. War expenditure is mostly unproductive.

Expenditure, & Production

There are various kinds of state expenditure which may be expected to increase the wealth-producing capacity of a country. A Govt. may undertake the provision of goods and services which although they would otherwise be provided by private enterprise can be provided most economically by the state. Cases of this kind can occur only where the state has special advantages as a producer e. g. posts and telegraphs, electricity etc.

There are again some undertakings which although they would not be undertaken or undertaken in the same way by private enterprise may yet increase the national productivity e. g. expenditure on railways and irrigation.

The years before the war saw a considerable increase in nearly all progressive countries of that part of state expenditure which may be regarded as invested in human resources of the nations. Under this head may be included all educational expense and expense on public health and sanitation.

Expenditure & Distribution

State expenditure may affect distribution in various ways. The most direct is probably when revenue is raised by taxation of one class and paid out in the form of money to another. The same result is achieved although indirectly when wealth is raised by taxation of one class and the revenue is used in providing goods and services to other classes.

At the present time there is much to be said in favour of reducing the great inequalities of wealth. Better distribution will increase economic prosperity by increasing not only the total amount of wealth but the satisfaction obtained from the same. But the great danger of attempted re-distribution is always that it may check the production of wealth. To take the wealth from one class by taxation and to use it for the benefit of other classes may check production in two ways. The increasing burden of taxation may reduce production by reducing the capacity and the willingness of the comparatively rich to work and save and on the other by removing responsibility of those benefited to work and support themselves.

Chapter III

A state generally raises its revenue from the following sources :—

1. Income from state-owned property.
2. Income from state-owned industries.
3. Income from gifts and fines.
4. Taxation both direct and indirect.

Of these the last is the most important and by far the most potential source of revenue in modern states.

A tax is a compulsory payment without any reference to any direct and proportionate benefit in return. It is to be distinguished from fee and special assessment. A fee is a charge made by the govt as the price for some services rendered. Those who do not enjoy the service may not pay the fee. A special assessment or 'betterment tax' is somewhat like a fee and some what like a tax. It is charged upon those who have been benefitted by the improvement brought about by the state and in so far it is like a fee but being a compulsory levy it is like a tax as well.

Direct and Indirect Tax

A direct tax is a tax which is paid by the same person from whom it is collected and not afterwards shifted to any other body as in the case of an indirect tax. Income tax, Death duty are good illus-

trations of direct taxation while salt tax, opium tax, amusement tax, customs duties are some of the indirect taxes found in modern times.

The advantages of a direct tax are :—

- (1) It is more productive
- (2) It is more equitable
- (3) It is more elastic.

The disadvantages of a direct tax are :—

- (1) It is more unpopular
- (2) It is more arbitrary.

The advantages of an indirect tax are :—

- (1) It is least felt
- (2) It is the only way of taxing the poor
- (3) It is remunerative.

The disadvantages of an indirect tax are :—

- (1) It is unjust as it taxes the poor man.
- (2) It is not progressive but regressive.
- (3) Evasion is more possible
- (4) It checks production.

Canons of Taxation:

A Tax system in order to be useful must satisfy certain tests of which the following four were laid down by Adam Smith. They are :—

- (1) Principle of ability—By this canon Adam Smith implied that the criterion of payment of taxes should be that the ability to pay or the sacrifice involved by taxation would be equal on every body. Obviously a rich man is able to pay taxes in a higher ratio than his poorer brethren. Hence the system of taxation should be progressive.

(2) Principle of certainty—the time of payments, the quantity to be paid ought all to be clear and plain to the contributor and to every other person.

(3) Principle of convenience—the time of collection and the mode of taxation must be such as to be convenient for the tax-payer to pay it.

(4) Principle of economy :—This canon implies that the cost of collection should be minimum so that the net proceeds may be maximised.

As regards the above canons, we must first make a distinction between the first canon and the other three because the first one is concerned with the principle of taxation while the remaining three are concerned with the administrative side of taxation.

The first canon is at once vague and ambiguous. It is vague because there is no fixed standard to measure ability to pay. Again the principle is ambiguous because it does not definitely lay down whether the principle of proportion or progression is to be accepted.

The other three canons that Adam Smith lays down are relatively unimportant in modern times. Modern economists give more stress on elasticity and productivity than convenience and certainty.

Proportional V. Progressive Taxation

When a flat rate is charged whether the income is high or low, it is said to be proportional. Thus

when the rate of tax is 5 p. c. an income of Rs 100/- would pay Rs 5/- and income of Rs 1000/- would pay Rs. 50/-. But it is easily seen that Rs. 5/- measures greater utility to a man earning only Rs. 100/- than what Rs. 50/- measures in the mind of one earning Rs. 1000/-. Therefore it is suggested that equity demands that the tax rate should be more than in proportion in so far as the ability to pay rises at a proportionately faster rate than rise in income. So there should be a graduated rate of taxation, rate rising with rise in income. This principle of progression has been accepted in modern times.

Incidence of Taxation

The question of incidence i. e. who actually pays the tax or upon whom the burden ultimately rests is a difficult one. Ordinarily the direct taxes fall on those who pay them while indirect taxes are shifted to others. But this is by no means the only principle. It is sometimes found that an indirect tax theoretically to be shifted cannot be shifted in actual practice. Similarly a direct tax is often times shifted and thus takes the nature of indirect taxation.

University Questions

1. Distinguish Direct from Indirect tax and state the respective merits and defects of each.

(C. U. 1930) (C. U. 1937).

2. The rich should be taxed more in proportion than the poor. Do all taxes obey this principle ?
(C. U. 1931).

Suggested Questions

1. What are the sources of public revenue. ?
Estimate their respective importance.
 2. Distinguish productive from unproductive expenditure.
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